

1924
Box 1

RAILWAYS ACT, 1921.

PROCEEDINGS OF THE RAILWAY
RATES TRIBUNAL.

SCHEDULES OF STANDARD CHARGES.

FRIDAY, MAY 30TH, 1924.

FIFTH DAY.



LONDON :

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1924

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PROCEEDINGS OF THE RAILWAY RATES TRIBUNAL.

FRIDAY, MAY 30TH, 1924.

PRESENT :

W. B. CLODE, Esq., K.C. (*President*)

W. A. JEPSON, Esq.

GEO. C. LOCKET, Esq., J.P.

FIFTH DAY.

THE SOLICITOR-GENERAL (SIR HENRY SLESSER, K.C.) and Mr. W. BOWSTEAD (instructed by the Treasury Solicitor) appeared on behalf of the Minister of Transport.

THE LORD ADVOCATE (THE RT. HON. H. P. MACMILLAN, K.C.), MR. A. C. CLAUSON, K.C., MR. BRUCE THOMAS and MR. ALFRED TYLOR (instructed by the Honorary Solicitors) appeared for the Railway Companies' Association.

THE HON. R. STAFFORD CRIPPS appeared for the London County Council.

MR. F. G. THOMAS, K.C., and MR. JACQUES ABADY (instructed by Sir Thomas R. Ratcliffe-Elles) appeared for the Mining Association of Great Britain.

SIR DOUGLAS HOGG, K.C., M.P., and MR. F. J. WROTESLEY (instructed by Messrs. Vizard, Oldham, Crowder and Cash) appeared for the Traders' Co-ordinating Committee; The National Association of Railway Travellers; and the following local authorities: The boroughs of Leeds, Cardiff, Oldham, St. Helens, West Ham, East Ham, Gravesend, Richmond, Dartford, Southport, Watford, Leamington Spa, Morecambe, and Rothesay; and the Urban District Councils of: Mitcham, Heston and Isleworth, Teddington, Wallington, Surbiton, Harrow-on-the-Hill, Prestwich, Epsom, Carshalton, Barnet, Hampton, Bexley Heath, and Staines.

MR. HERBERT MORRISON appeared for the National Joint Council of the Trade Union Congress and the Labour Party; and for the London Labour Party.

MR. W. G. R. BOYS and MR. HUGH SHAYLER appeared for the Civil Service Confederation.

MR. S. CARLILE DAVIS appeared for the Plymouth Incorporated Mercantile Association.

MR. GEO. DEW, J.P., L.C.C., appeared for the National Association for the Promotion of Cheap Transit.

MR. JACQUES ABADY (instructed by Messrs. Kensholes & Prosser, Aberdare) appeared for the Cardiff Collieries, Limited.

MR. A. MOON appeared for the Midland Association of Blast Furnace Owners.

MR. F. C. BORER represented Messrs. Harrods Staff Council.

MR. EDWIN CLEMENTS (instructed by Messrs. Neish, Howell & Haldane) appeared to watch the proceedings on behalf of various Objectors to the Schedules of Standard Charges.

MR. J. H. WORRALL appeared for the National Anti-Profiteering Society.

MR. RALPH COPE, recalled.

Cross-examined by Mr. F. G. THOMAS.

1923. I have one or two questions to ask you on the accounts of the Great Western Company. I am not going over ground with you of a general character, but only on the Great Western figures. The first point I want to refer to is the fact which was shown by Mr. Quirey's table "J.Q.I."—you remember the table, the one which showed how the capital expenditure had been met? That shows, does it not, that the Great Western Company had provided relatively a larger proportion of capital money from the proceeds of new capital issues. There was a figure of £5,298,000 which had been raised by a public issue?—No, not entirely in respect of a public issue? Some part of it was issued by the Swansea Harbour Trust, and we absorbed that.

1924. I see; it was an exchange of stocks?—Yes.

1925. But was some part of it a public issue?—Yes.

In 1913 and 1914 I think there were some stocks issued. I can tell you in a moment. In 1913 there was £600,000 issued.

1926. Mr. Locket: What form of stock was that?—Ordinary stock.

1927. Mr. F. G. Thomas: I do not know that I need trouble you about that. There have not been any recent issues, apparently?—No. In 1914 there was £387,000 of Ordinary stock, and in 1914 £306,000 of 4 per cent. Debenture stock.

1928. What would that Debenture stock have been issued at?—I am not quite sure. At a premium.

1929. It would have been issued at a premium at that time?—Yes, a very slight premium.

1930. Yes; but at any rate, 4 per cent. would more than cover the interest charges; it would be rather less?—That is so.

1931. And taking conditions as they are to-day your stocks are standing to-day at a relatively high figure, are not they? Take your Debenture stock, which is a 4 per cent. stock, is not it?—Yes.

1932. That stock, I think, stands at about 87?—In the region of that.

1933. So that would be about on a 4½ per cent. basis?—Yes.

President: Would there be any accrued dividend in it?—Yes, of course, five months; five-twelfths of 4.

1934. Mr. F. G. Thomas: Then 5 per cent. Preference—of course, making the same allowance for accrued dividends—stands somewhere at about 105?—Yes.

1935. So that even allowing for accrued dividend —?—You can call it about 103; a little over 103 clear of dividends.

1936. I am right in thinking, am I not, that although there is the general principle which still applies—though it has been departed from in many

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MR. RALPH COPE.

[Continued.]

cases—of preserving the relative proportions of one-third debentures and two-thirds stock capital in the company, that has to be considered, has it not? Of course, it is open to the company to issue stock as a Preference stock?—Yes.

1937. And it is also subject to this qualification, that in these amalgamation schemes it was the general practice—I am speaking now generally; you will be able to check me from the experience of your own company—first of all to preserve all the borrowing powers of the constituent and subsidiary companies?—Yes.

1938. And extinguish the capital, but preserve those powers; so that in the case of new capital issues the companies have the advantage of the additional proportion of borrowing powers which resulted from the unexercised powers of the old companies?—Yes.

1939. And therefore I may take it that the proportions of borrowing which would be open to your company, for instance, at the present time, would not be in the proportions of 2 and 1, but in some more equal proportions?—Well, I am not so sure about that.

Mr. Clauson: Is my friend's argument quite sound; because in so far as the borrowing powers of the constituent companies are preserved that may be so, no doubt, but they will be subject to a similar proportion in most cases. I do not say universally, of course, because Acts differ to some extent.

1940. Mr. F. G. Thomas: You will correct me, Mr. Cope, if I have put it incorrectly, that that was rather in the nature of addition?—Not additional, but what the constituent or subsidiary company had previously. We only retained their borrowing powers.—

1941. You see what I have in mind—I want you to correct me if I am wrong—that the borrowing powers of the old companies were preserved and became the borrowing powers of the group?—Yes.

1942. But in the case of further issues of capital there would then be the obligation to issue in the proportions of 2 and 1?—Yes.

1943. I think you will find that that is rather the position?—You have to have regard to the powers which you have got. Perhaps this may help you. We have available borrowing powers of £3,000,000. We have powers to raise share capital, stock, to the tune of about £9,000,000, so our borrowing powers are really a fourth of the whole. The total available powers are £12,000,000. Of that we are entitled to raise by borrowing powers £3,055,000—roughly a fourth.

1944. I am not quite sure if that meets the point, because what I was putting to you was that you had the additional borrowing powers from the old companies; but as regards the new issues you could only borrow a third; in respect of raising £66½ by stock you would only have the £33½ that you could raise by borrowing?—Well, these are our powers, which include the powers we took over from the constituent companies.

1945. I do not know whether you have exercised the Public Utilities Act by borrowing under that Act?—No.

1946. So that does not apply in your case; and, of course, in these matters the directors naturally, when they are raising capital, raise it in the form which is most economical, and is the form which can be issued, subject, of course, to the relative proportions with which we are dealing; but from time to time as they exercise the powers they exercise them in the way in which they can raise the capital most economically?—Yes, they naturally must have regard to that. They must have regard to the price they are going to pay.

1947. I want to draw your attention to the fact that this utilisation of reserves for capital purposes is not a new feature, of course, of your accounts. There was a substantial debit in 1913 to your capital account?—Yes, two or three millions over the group, I think.

1948. I think you will find it is rather more than that. The figure that is given in this table, the

Ministry of Transport table?—I will take it from you.

1949. —is £4,226,000?—Yes. The Great Western was £1,700,000.

1950. What were your free reserves at that time?—I really could not tell you offhand.

1951. Well, it is rather material, is not it, because this table so far as the Great Western is concerned is dealing with the point that you have been able to finance capital expenditure out of stock issued and out of moneys in the free reserve apart from a sum of—I think it is—about £600,000?—Roughly £700,000.

1952. About £700,000. Now those reserves which are dealt with there are, of course, the additional free reserves to those which existed in 1913?—Yes. 1953. And therefore what I wanted you to tell me was what the figure was in 1913?—Well, there was very little—I could not give you the exact figure. We started to place to a general reserve in 1913, and out of the profits of that year we allocated £200,000 to a general reserve fund.

1954. That is the point I was on. In 1913 free reserves were negligible—well, perhaps we ought not to speak of £200,000 as negligible, but relatively to the total it was a small figure?—A small matter.

1955. At that time you were financing out of reserves nearly four and a quarter millions of capital expenditure which stood to the debit of your capital account?—Is that so?

1956. That is so, is not it?—I do not know. I should say not.

1957. You mean that it may have been borrowed from the bank, or something of that sort?—I should think very likely in the case of some of the constituent companies; not the Great Western.

1958. Was it the case in the Great Western?—No, we did not borrow it from the bank.

1959. Although at that time you had free reserves which you say are comparatively small, you collectively, the whole Group, was overdrawn on capital account to the extent of four and a quarter millions, and that money had been found either from other reserves—what I think my learned friend called dedicated reserves—or borrowed from the bank?—Superannuation fund, savings bank, or the outside banks.

1960. And therefore the idea that you must regard the free reserve as represented by the debit to capital account was an idea which was not in operation in 1913?—No. The policy of most companies changed in 1913. The Directors decided to establish funds out of their profits to do this kind of thing.

1961. You have your accounts before you, I expect?—Yes, I have.

1962. If you look at Table 18, which is your general balance sheet—For which year?

Mr. Jepson: 1923.

Mr. F. G. Thomas: For the year 1923, yes—you will see there the various items of reserve, some of which are shown as reserves, and others where the language of the heading would not indicate a reserve unless, from the mysteries of accountancy, one realised that they were likely receptacles; is not that so?—I do not quite know—to what are you referring?

1963. What I was referring to is this. You will see there your depreciation fund set out?—Yes.

1964. Railway steamboats and other businesses, and a reserve for contingencies and a general reserve?—Yes.

1965. But you will also see an item which is in the Ministry of Transport figures combined together—“Liabilities Accrued and Miscellaneous Accounts”?—Yes.

1966. Now I am not using the word “concealed” in any opprobrious sense at all. One knows that the higher the finance and the more prudent, the more difficult it is to get at these items on the face of the figures; but those are not words which ordinarily would convey the idea of a reserve, are they?—No, perhaps not.

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[Continued.]

1967. "Liabilities Accrued and Miscellaneous Accounts"?—"Liabilities Accrued"—that, speaks for itself. They are liabilities accrued, and that is a reserve for them.

1968. You mean that "liabilities accrued" means —?—Means what it says.

1969. Means liabilities which have been wiped out?—No, they have accrued; and I have charged them in the expenditure of the year, but they have not yet been met.

1970. Mr. Locket: They include both capital and revenue accounts?—No, practically all revenue.

1971. Mr. F. G. Thomas: But Mr. Quirey told me that practically the whole, all except £1,000,000 of this item in his accounts of "Miscellaneous Accounts" was free reserve. Now what is reserve in those figures? What do you rely upon as free reserves in those figures?—About £900,000 of it.

Mr. Clausen: Would the Tribunal grant me an indulgence? We are in a considerable difficulty in which the Tribunal, I think, can help us. We have two more railway accountants after Mr. Cope, and I think it is probable that they will last until some such hour as half-past 2 or 3 at least. After these two other railway accountants we were going to call Sir William Plender, and I had made arrangements for Sir William Plender to be here this afternoon for that purpose, but he has to preside at an emergency meeting which has been summoned for 2.30, and he is naturally anxious to be there. It will upset a great many arrangements if he cannot be there. What I was going to ask the Tribunal to help me about—and I am sure my friends would be anxious to help, too—was this. With these other two railway accountants I do not think it is very likely that the evidence will come to an end much before about 3 o'clock, but should it do so, if the Tribunal would then allow us to suspend the proceeding until Monday morning, that would get Sir William Plender out of his difficulty. Of course, we may have enough evidence to last the afternoon.

President: Do not spin out the evidence to make it last.

Mr. Clausen: Oh, no, Sir; but I do not see that two railway accountants can take less than the greater part of the day.

President: We shall not be disappointed if they take less.

Mr. Clausen: Then I may release Sir William Plender?

President: Yes.

Mr. Clausen: I am very much obliged to the Tribunal. That will simplify matters very much.

President: Mr. Cope was in the middle of giving you an answer, Mr. Thomas. I think he said £900,000.

Witness: I did say £900,000, but I think that is rather overstated.

President: If, without distressing yourself, Mr. Cope, you could keep up your voice, I think it would be a convenience to the gentlemen who are hanging upon your words.

1972. Mr. F. G. Thomas: Now, which are items upon which you rely as constituting free reserves?—Do you want them in detail?

1973. No, just under the headings.—They are mostly in Miscellaneous Accounts.

1974. Your general reserve you call free, do you?—Oh, yes, I call that free. That is £1,800,000.

1975. And do you call your reserve for contingencies free?—Yes, £2,350,000.

1976. And the rest of it is in that figure of £900,000?—Yes, and the difference is in the balances carried forward.

1977. And that is a reserve which, in your view, would be distributable to the shareholders?—The whole of those figures can be distributed.

1978. Is that £900,000 in Miscellaneous Accounts?—Probably most of it is.

1979. And some in Liabilities Accrued?—No, no. I told you before that Liabilities Accrued speaks for itself.

1980. Am I right in thinking that that £900,000 is the sum total?—Of the free reserves that I am speaking of?

1981. Yes?—Yes.

1982. That is the only addition which is not shown on the face of the account?—Yes, about £900,000.

1983. Now when you come to Mr. Quirey's table you show there that you have financed your capital expenditure to the extent of £5,000,000, and just on £300,000 out of proceeds of new capital raised?—Yes.

1984. And £5,201,000 out of the increase in free reserves?—Yes, I will take your figure; I think you are right.

1985. Leaving a deficiency of just under £700,000 which has had to be found from other funds?—Yes, that is right.

1986. But that is on the assumption, is not it, that the whole of your free reserves are represented on the other side of the account by the debit at capital account?—Yes.

1987. To the extent that those free reserves are represented on the assets side of your balance-sheet by other items—for instance, cash at bankers or investments in Government securities, which is the great sum of nearly £22,000,000?—Yes.

1988. To the extent which it is represented in these items this table would be incorrect?—No, I do not think it is incorrect. That money invested in Government securities was practically all the moneys we had received from the Government, which we have had to invest pending the time—

1989. I do not know that you are quite following what I am putting to you. These reserves, whatever kind they may be—whether they are superannuation fund, and all that—are represented by assets on the other side of your balance-sheet?—Yes.

Mr. Clausen: Which balance-sheet?

Mr. F. G. Thomas: The balance-sheet of the Great Western Company.

Mr. Clausen: Which balance-sheet; the balance-sheet for what year?

Mr. F. G. Thomas: 1923.

Mr. Clausen: Let us get that clear. That was the question.

Mr. F. G. Thomas: I thought it was quite clear.

President: I think we understood the question.

1990. Mr. F. G. Thomas: If you please, Sir. These reserves are balanced by assets on the other side?—Certainly.

1991. And one of the many assets which balances them is this figure to the debit of capital account, £7,877,000?—Yes, that is so.

1992. But there are other figures, of course, of cash at bankers, investments, stocks, stores, and all these other assets which come in on this statement?—Yes.

1993. And to the extent that free reserves are represented in that form they are not represented in the form of debit to capital account?—If that is so, but I do not admit it.

1994. And obviously your debit to capital account, as you have told me, in 1913 is not represented by free reserves, because there were no free reserves at that time to represent it?—Nothing material.

1995. Now when you defray capital expenditure out of reserves, or out of the general resources of the company, until you have issued capital in order to pay it back again to the respective reserves, you have changed that asset from a liquid form into a form in which it is expressed in the capital value of the undertaking; is not that so?—Yes.

1996. And therefore would not you rather expect to find your free reserves invested, or a deposit in the bank, or in short-dated Government securities?—No, I should say not. The Directors in their wisdom have kept this money in the concern to provide the capital. They could no longer—

1997. That was the position in 1913?—You must recollect that since 1913 it has been practically impossible to raise capital from the public. The price and everything was against them.

1998. And this financing of capital expenditure out of reserves, as you have already pointed out, is not a new thing; it was going on to the extent of a

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[Continued.]

very large sum in 1913?—Yes, practically out of the superannuation and savings bank moneys then.

1999. *Mr. Jepson*: I have been looking at the 1913 accounts, and I find the Great Western was overdrawn £1,700,000 in 1913. Presumably that £1,700,000 was found out of some of the moneys which the Great Western held. I should like to ask this general question. Has not it for very many years been the practice of the railway companies to use either these general reserves or internal amounts which were in their hands for capital use until such time as it suited them to raise money on the market?—Until a convenient opportunity occurred of raising the capital. You must ultimately raise the capital; and it was only from 1910 onwards that it became difficult to raise capital and the price got bad. Therefore they had to adopt other means, and they utilised reserves in the business.

2000. Would you go so far as to say that that was quite sound and in the interests of everybody concerned—the railway companies, and, as it happens to-day, in the interests of the traders, too?—Oh, yes, absolutely.

Mr. F. G. Thomas: I hope it is quite clear. I have not been putting this question to Mr. Cope with any desire to criticise a policy which, of course, is obviously sound. It was rather to see what the nature of the transactions really were.

Mr. Jepson: I was wondering quite what the point was. Of course, I must not ask you now, but it did look to me, when Mr. Cope said about the £200,000 that they put by in 1913, a general reserve—he said they started building up the general reserve in 1913. Now, if in building up that general reserve, which, of course, was taken out of the revenue, they had left it in revenue, that would probably have been distributed to the shareholders, and there would have been no fund that was bringing in an income in the way of interest or dividends on investments which was credited to revenue; and it would have been, again, to the disadvantage of the trader, because the net revenue for 1913 would have been higher than it is now.

Mr. F. G. Thomas: I can tell you, Sir, at once exactly what the point I was on was, if there is any doubt. It is this. Mr. Cope has told me that he has attributed the whole of the increase in general reserves to the debit to capital account. What I was trying to elicit, and I think I have elicited, was that that was not the position in 1913, because these general reserves were quite negligible, and that then it was other funds which were used for capital purposes, and, of course, my point is that to earmark, to single out debit on capital account from the whole of the increase in general reserve—it is a matter of comment afterwards, but that is the point I am on.

Mr. Jepson: Yes.

Witness: I did not say that the whole of the overdraft on capital account was found out of reserves in 1913.

Mr. F. G. Thomas: Oh, no.

Witness: I did suggest that some of the money was borrowed from bankers, because they could not then raise the stock. If you will turn to page 108 of our accounts you will see the Alexandra Dock owed to the bankers £135,000, and there is a capital overdraft there of £318,000. Now I think you will find that a great many of our constituent companies, or a considerable number of them, had to borrow from the Marquess of Bute to carry on out of their reserves at that day.

2001. I quite follow that it is subject to that qualification, but it was not done out of general reserve?—Oh, no; there were no general reserves until the end of 1913 in the Great Western Group, I think.

2002. Now to the extent that money is withdrawn from other investments, or not invested, reserve money generally is withdrawn from other investments, and invested or used for the purposes of capital expenditure of the company, the net revenue is deprived, of course, of the interest which those funds were earning when invested, or which they would have earned if invested?—Yes. If you use your accounts

to provide that capital overdraft, obviously the revenue account loses interest on the money so taken.

2003. Yes, and that loss has to be borne by the net revenue account which the railway companies are entitled to have made up to the standard out of the charges and other sources of revenue?—Yes.

2004. So that is lost to the trader. It is used for capital purposes of the company?—I do not know that the trader is entitled to interest on the free reserve.

2005. I do not want to argue points of law with you. I know your view, but as a matter of fact he gets it?—Yes.

2006. And therefore if he loses it he does not get it?—Yes.

2007. Therefore he loses that revenue, and that has to be made good out of charges; and that is put into capital expenditure. Now you have adopted a formula in your claim (1) (c) by which you make the assumption that capital expenditure is only profitable at once to the extent of $\frac{1}{2}$ per cent.?—Yes, that is the formula.

2008. And in five years capital expenditure is only profitable to the extent of 2½ per cent. on that formula?—Something like that.

2009. And therefore the trader is losing the interest which he got on the investments, and you are only getting back in five years' time $2\frac{1}{2}$ per cent. out of the traffic?—Possibly.

2010. And on the top of that position you want to charge the trader 6 per cent.?—That is the adequate remuneration of the capital.

2011. And it does not stop there, does it, because when the money is invested in Government securities, for instance, that all goes as part of the other sources of revenue to the relief of charges?—The interest on it does,—not the capital sum.

2012. No, no; the interest goes in relief of charges, and therefore it is no advantage in a profit-earning sense to the railway company; it does not increase their standard revenue in any way; it goes in relief of it?—It does not increase their standard revenue? I do not follow that.

2013. That revenue which comes from those investments is part of other sources of revenue of the company, and to that extent goes wholly in relief of rates?—Yes, that is so.

2014. That is what I am putting to you. Now if instead of being invested in securities it is put into the company's undertaking in the form as helping to finance your capital account, then it goes on improving in its yield of revenue, on your formula?—Yes.

2015. And when it comes to yield additional revenue over your standard revenue, then the railway company do come in and get an extra profit out of it, do not they, on revision?—What do you mean—if there is a surplus?

2016. Yes?—They would share in the surplus if there was a surplus over the—

2017. If as a result of this expenditure the revenues of the company are increased, under (I think it is) subsection (3) of Section 59, when you come to readjust, the railway companies are entitled to keep 20 per cent. of the surplus?—Yes, that is so; the Act provides for it.

2018. So that the railway companies do come in there and get an interest in the increased earnings of the undertaking?—Yes; the Act gives it to them.

2019. I think I am coming to another point now, but I was not quite clear from the explanation you gave to my learned friend, Sir Douglas Hogg, why it was that you deduct that £355,306 Fishguard expenditure from the amount of money which you had to find?—It is not in the Great Western capital expenditure between December, 1912, and December, 1923; it is in the Fishguard capital, but it is not in the Great Western capital.

2020. You mean it was found prior to that date?—Some part of it was. You see, we get that claim under (a); it is part of the Great Western—

2021. I follow that?—May I put it in this way? We take the capital expenditure at 31st December, 1923; we deduct therefrom the capital expenditure at

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Mr. RALPH COPE.

[Continued.]

31st December, 1912. That gives the total net capital expenditure for the period. Now, our claim under (a) is so much, and we deduct that from the net capital expenditure so ascertained. We deduct the £355,000, you see, there because it is not in the two capital figures of the Great Western Company in the period.

2022. But did you not find it in the period?—No.

2023. You did not. That is what it comes to?—Yes.

2024. When was it found then?—Oh, at varying times.

2025. Prior to?—A good part of it was prior.

2026. I do not quite follow why if any of it came after that date why it should not come in?—It did not come in by way of capital expenditure; so far as the Great Western is concerned; they advanced the money under their powers.

2027. Did not you have to provide the money?—

They provided the money in varying times since 1915.

2028. Since when?—Since 1915.

2029. If this was money provided during the period which we are dealing with it has got to come from somewhere, and I assume that it came from your reserves?—It came from somewhere out of the cash balance of the company.

2030. I think that the criticism which I should like to make on that is that it increased your deficiency from the figure of £700,000 to about £1,050,000?—I do not quite agree with that.

2031. But I think you would come a long way in my direction?—I might.

2032. I thought you would say that?—But there was more than £100,000 of it found before 1913; there was about £200,000 of it.

2033. My criticism is confined to the £200,000?—That is so.

2034. I do not think you will quarrel with that?—We found the money for the Fishguard Company under our powers and we have not yet received stock for it, and until that day comes we shall not charge it as capital expenditure.

2035. But you have provided the money?—Yes, we have provided the money.

2036. The only other matter I wanted to ask you about was on the question of cancelled stocks; I mean where you have obtained stocks of your own company as a result of the operations of the amalgamation Orders. You have not adopted the principle of cancelling stock; you keep the stock and it will earn dividend, and that dividend will go into your interest account, Column No. 12, and be part of your other sources of revenue. I am not perfectly clear about that—I am not criticising it at all; I think that might meet the position—but what I wanted to put to you was this. You have from time to time held your own stock, have not you, in the past?—The Great Western stock?

2037. Yes?—No, not pre-1913. We held stock in some of our constituent and subsidiary companies, and on amalgamation that was transferred into Great Western stock, and we hold that. It was never the practice of the Great Western Company to hold its own stock.

2038. Has it never obtained its own stock and then sold it?—No, not that I am aware of.

2039. Have you sold any of this stock?—I think we have.

2040. The stock which you have got as a result of the Railways Act?—Yes.

2041. Mr. Quirey told me that this stock would appear in the accounts at its cost to the company?—Yes.

2042. Am I not right in thinking that the Great Western Company have realised substantial profits from sale of stock?—Oh, yes; they have realised profits from the sale of stock.

2043. Of their own stock?—No; I do not know that they have. I cannot say that. The profits we have

realised on the sale of stock have been Government securities.

2044. Of course; that is an ordinary transaction; but I am referring purely to your own stock?—I really could not say whether it was a profit or not. What is the argument?

2045. You see, that profit would only represent the asset, the figure at which it was in the accounts, and Mr. Quirey said he would regard the profit as a free reserve?—So should I. Any profit on the sale of stock is a free reserve.

2046. The Great Western Company have not realised large profits from the sale of their own stock?—Not that I am aware of.

2047. Let me ask you this on claim (b), where the claim is in respect of moneys provided for capital account, where the capital expenditure has enhanced the value of the undertaking. You have already explained how you got at your capital figure, and, of course, you have not tried to apply any other meaning to the enhancement of the undertaking than the fact that it is not likely that capital would be spent unless it did enhance the value of the undertaking?—I have nothing to add to the answers I gave yesterday.

2048. But you have not attempted—I mean it really covers the point—to assess the degree of improvement in value?—No; I have not attempted that.

2049. You have assumed that it has all enhanced the value of the undertaking, and if it has not enhanced either to a greater or smaller degree, it is all to be remunerated by a fixed allowance of 6 per cent.?—That is my view, yes.

2050. Mr. Locket: There is one point about which I am not clear: I do not know that it is very important, but in "J.Q. 1" you show the proceeds of capital raised as being £5,298,000, and you have given us particulars with regard to about £1,300,000 raised by the Great Western Company in 1913 and 1914. May we take it that the balance was raised by the other companies?—No. Really, the major part of the remainder was for Swansea Harbour.

2051. I see.—It was when we purchased that in 1922 or 1923.

2052. I follow; you issued capital in respect of the purchase of that?—We issued about £3,000,000 of Stock in exchange for their two Stocks, the "A" Stock and the 1886 Stock.

2053. Yes; I had overlooked that. You did mention it.—Yes.

2054. Mr. Jepson: When you were explaining the system under which you arrived at your claim under Section 38 (1) (b), you said that you took the capital account for 1913 and the capital account for 1923 and made the deduction. I supposed that you meant the capital expenditure account?—Yes, the capital expenditure account, certainly.

President: Do you want to cross-examine, Mr. Cripps?

Mr. Stafford Cripps: I do not desire to waste time, Sir. I put to Mr. Quirey yesterday the questions on points of principle which I considered necessary. I have not any substantial questions with regard to the Great Western Company's figures, and therefore I do not want to cross-examine Mr. Cope; provided that it will not be taken that I consent to everything that he has said about them.

Mr. Collins: In the absence of Mr. Morrison, Sir, may I be allowed to put a few questions to the witness?

President: On this occasion, Mr. Collins, we shall be very glad for you to put your questions; but strictly speaking, I am not at all sure that we ought to hear you. I think that Mr. Morrison ought to be here in person; but I quite understand the position that he was not aware of that view, so that I will allow you on this occasion to put such questions as you desire.

Mr. Collins: I think Mr. Morrison would have liked to have been here if he could.

Cross-examined by Mr. COLLINS.

2055. May I ask you a question with regard to depreciation, which I am sure you will agree is a very important matter, as to whether the practice

varied so much between the constituent and the subsidiary companies and the Great Western Railway Company before amalgamation?—Yes, there were

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[Continued.]

varying practices amongst the constituent and subsidiary companies.

2056. The practices varied considerably?—Yes, they varied considerably.

2057. Can you tell me what was the method adopted by the Great Western Company itself, that is to say, the old Great Western Company?—It was on the basis of the life of the asset.

2058. I understand that, but, further, will you tell me how that figure was actually arrived at, because we have been told, I think, by Mr. Quirey, that the amount spent on maintenance was a very important factor in deciding what the depreciation should be?—The system of the Great Western Company in 1913 was this: They engaged an expert accountant to make an inquiry into the life of the respective assets, and to advise them as to what was the true figure to be charged each year as representing the wastage of the asset, and that is the charge in the Great Western Company's accounts for 1913.

2059. What is the method that is now adopted by the Great Western Company?—The same method.

2060. Is it exactly the same?—Yes, exactly the same, except that there is an addition made for increased cost of materials and increased cost of wages.

2061. That is the only addition, is it?—And the provisions of to-day. The charge to-day has again been gone into in order to ascertain whether the life is the same as it was in 1913. We never act excepting under expert advice.

2062. And supposing that at the end of this year, we will say, you were endeavouring to arrive at what is the proper figure for depreciation, would you take an estimate of the amount required for maintenance next year, or would you base your figure entirely in regard to the expenditure for the current year?—We should continue the practice of 1913. There is so much charged as a provision for renewals. The other factors are dependent upon what is done to the stock or road. The repairs are carried out as it may be necessary to maintain the undertaking effectively.

2063. And, in order to arrive at the total amount of depreciation, you take into account, before you make your entry, what has been spent?—No, not at all; we charge the annual provision into the accounts; the actual expenditure is charged against the fund.

2064. The expenditure for the year in question, you mean?—Yes.

2065. Was there any provision being made in 1913 for anything beyond actual wear and tear? I suppose you will agree that "depreciation" is rather a wide term?—It is really a renewal of the asset.

2066. But do you agree that there is such a thing as obsolescence?—Of course there is.

2067. Do you provide for that in any way?—No, we provide for the renewal of the asset.

2068. Supposing that you find that in any year, say, 1913, or any subsequent year, an asset has become valueless because it is out of date, for some reason or another, do you immediately write that out of your accounts, or do you provide for it in any way?—Yes, we should probably provide for it.

2069. But do you do that immediately, or is it left over to some convenient season?—I do not know; it may be left to a convenient season, or it may not.

2070. You cannot take your capital expenditure at any moment and say that that does represent the expenditure on assets which are live assets?—No, I do not think you could say with regard to any railway capital account that the expenditure was represented all the way through by a live asset.

2071. If we turn to your claim under Section 58 (1) (c), is it not possible that, since the year that you have selected under the arbitrary formula, 1898, you have spent a good deal of money which now represents what is virtually waste material?—No, I do not admit that at all.

2072. Material which can never be fully remunerated?—Surely there cannot be much of that, if you look at the receipts of the Great Western Company

in that period and see how they have increased. The money must have been spent wisely, or you would not have got that increase in the revenue.

2073. You do not agree that a railway company ever has what are called "white elephants"?—Yes, I do; there are some of them; we all make mistakes.

2074. There may be a few such items in the claim?—Yes; I should say that most railway companies have got some white elephants about.

2075. It has been suggested quite seriously that to go behind the published accounts in order to substitute actual figures (in respect particularly of the depreciation, amongst other things), would mean keeping open the later accounts in the same way in order to arrive at the correct figures for depreciation or anything else, which may have been reserved for. Do you agree with that statement?—I do, absolutely.

2076. It would be necessary?—Yes, it would.

2077. It would be necessary to keep open all the subsequent accounts before you could submit them to this Tribunal as figures which could be taken. Do you agree that the opening of the 1913 accounts would necessarily carry with it the keeping open of all the subsequent accounts?—The keeping open?

2078. Quite.—The reopening of the subsequent accounts, I suppose you mean?

2079. You can call it either reopening or delaying, whichever you like?—I do not say that you would require to reopen all the accounts during the period of control.

2080. I was taking the accounts for 1924, 1925, or 1926, when you submit your further statements to the Tribunal. If we reopened the accounts for 1913, would it necessarily mean keeping those accounts open for an undue time, and following the same procedure?—If you are going to reopen the accounts for 1913, then I do not know how long it would take to get a true figure; a year or two, possibly.

2081. But you agree that there would not be the same necessity, do you not? The 1913 accounts are vital at this stage?—Yes, presumably.

2082. I take it that so far as the later accounts are concerned, they could be quite easily ascertained from year to year by the Railway Company if there were found to be overestimates. It would be quite simple?—I do not follow what you mean.

2083. You may have a review of your charges, may you not?—Yes.

2084. The accounts would be brought before this Tribunal?—Yes.

2085. Because of the fact that we are asking for the accounts for 1913 to be reopened, it does not follow that there need be any unnecessary delay with any subsequent accounts?—No, I do not think there need be. It seems to me that when we come before this Tribunal we have to add to the standard given to us the amount of the expenditure of one year.

2086. If there was a mistake in one year, it would be quite easily rectified in the following year?—You could rectify a mistake in a subsequent year, but I do not see that you could do it before this Tribunal. We are given rates to produce the gross revenue required. What you mean is that if we had a standard revenue, and an unduly high figure for expenditure, which figure turned out to be wrong, then the next year there should be a correction; at the next revision.

2087. It would be quite simple?—I do not know whether it is legal or not; I could not say.

2088. I only want to make the point that the reopening of the accounts for 1913 does not necessarily mean that there will be a lot of delay in the subsequent period.

Mr. Jepson: Will you tell us exactly what you mean, Mr. Collius, because Mr. Cope has said that if the 1913 accounts are reopened it may be a year or two before they can be closed and the new results obtained? Do you suggest that, in the meantime, any work of this Tribunal in settling charges on the basis of the 1913 revenue plus the additions of the Act and plus the estimated working expenses, is to

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be deferred until such time as the new results that appear from the inquiry into the 1913 accounts have been got out?

Mr. Collins: No, Sir; if I may say so, it was not my point. The time that would be necessary to readjust the 1913 accounts is not a matter of which I have any knowledge, or as to which I can form an estimate; but I believe the point was made yesterday by the Lord Advocate that, if we reopened the accounts of 1913 because we thought that there were mistakes in depreciation and other matters, it would necessarily follow that we should have to keep open, or reopen, all subsequent accounts. I wanted to show, if I could, by Mr. Cope's answers, that that would not follow. The 1913 accounts stand absolutely alone; they are vital to this Inquiry; and, the figures once fixed, all those accounts are definite. Other years, I suggest, will be almost naturally adjusted by the railway accountants themselves in the ordinary way, and therefore a mistake in one year could be readily adjusted in the next year, and so on.

Mr. Jepson: Yes. The result at which it appears to me that everybody is anxious to arrive is, of course, to have a fair comparison of like with like. If the view of the traders is that, in the year 1924 or 1925 a great deal more is being reserved for depreciation than was reserved in 1913, then, unless that could be justified by increased costs or something of the kind, it might be open to the argument: "Well, you have been more lavish or more generous in reserving for depreciation, and that is pulling down the net revenue for 1924 or 1925 to a figure which makes it not comparable with the net revenue for 1913." That is the point.

Mr. Collins: Quite so, Sir.

Mr. Jepson: I suppose that would be the thing to be aimed at by any examination of the 1913 accounts. After those 1913 accounts have been settled, they cannot very well be reopened; but if it could be proved—if it could not be agreed between the railway company and the trader—that the extra depreciation charged in 1924 or 1925 could not be justified, is it your suggestion it would be open to this Tribunal to make a deduction from those figures which the railway company sought to provide for depreciation in 1924 or 1925, so as to make the figures for 1924 and 1925 fairly comparable with those for 1913?

Mr. Collins: I take it that there would be always the power to examine any account which was submitted to the Tribunal; the Tribunal would have a certain discretion in either accepting it or otherwise.

Mr. Jepson: But that is one way out of the difficulty, instead of waiting for the 1913 accounts to be re-opened and the new results obtained as the effect of the re-opening.

2089. Mr. Collins: If I may submit it, that would not have the effect that we desire. Once the 1913 figure is fixed and the standard revenue is fixed, we have something that we cannot really go back upon. There may be reviews, but those are quite independent. I only wanted to clear away the objection that was raised, to the effect that the re-opening of the 1913 accounts now, in respect of depreciation—which is always an uncertain figure—would necessarily carry with it the delaying or re-opening of the subsequent accounts, and I wanted Mr. Cope to confirm my impression that that would not be so, because it could be adjusted quite simply from year to year. (To the Witness): You do agree with that, Mr. Cope, do you not?—Well, I suppose so.

2090. I mean as an accountant?—As an accountant, you can re-open the accounts of any year, I suppose; but we have got to produce our accounts from the proprietors, and from that point of view they are closed for the year. The year's accounts that we have to submit to this Tribunal are open, and have been open to the examination of the traders' accountants, and they will always be open, I take it, for that purpose.

2091. But you agree that it would not be necessary if we assume, what I think is a fair assumption, that the adjustments are always made in accounts from year to year in the ordinary way. If you over-estimate in one year it affects the next year, and so on?—Yes. You cannot arrive at an exact estimate of your liabilities at the end of a year; you do the best you can.

2092. Quite so.—And that goes to the credit of the next year; and the actual expenditure goes to the debit of it.

2093. Yes; so that it is an easy matter of adjustment as between one year and another as you go along?—We always do it.

2094. Now I want to ask you another question with regard to that, in order to clear away another objection that has been raised with regard to the re-opening of the accounts. I am not claiming that they can be re-opened unless it can be shown to be necessary; but it has been suggested that all the accounts have been audited, and that that fact naturally carries with it a certificate with regard to everything in them, that is to say, depreciation and all the rest of it. Is it a fact that the certificates of the auditors do give a certificate of the depreciation being adequate?—Yes; our auditors would require to see that the depreciation charges were adequate, and they would call the attention of the directors to the matter if they were not adequate.

2095. They do not certify that; they do not take the responsibility?—No. I will read the certificate to you, if you like.

2096. Mr. Jepson: Would not the auditors be satisfied with the report of the expert that had been called in to decide that point?—They might be one and the same thing.

2097. Mr. Collins: You will agree that they have to rely upon someone for something?—Do you mean the auditors?

2098. Yes.—They have to rely to a certain extent upon me. I may be a broken reed, but they do rely upon me.

2099. They have to rely upon somebody?—They cannot check every item in the accounts; otherwise, if they did, the firm of auditors would require a staff as big as I have in order to prepare the accounts.

2100. Quite so.—And it would cost just double my cost to do the work.

2101. With regard to your capital expenditure account, I find, for instance, in one auditor's certificate that they have taken the accountants' re-arrangement of the capital expenditure. They have stated quite frankly that they have done that?—Yes.

2102. So that in very important matters they have to rely on the officials of the company to a great extent, and it would be impossible for them to carry the whole responsibility?—They cannot go into every item of the accounts, but I may say that they are particularly careful about capital expenditure.

2103. As between capital and revenue, do you mean?—Yes.

2104. Quite so. Now I want to put the question to you, upon this point, whether after all we are not entitled rather to regard the traders, the passengers, and so on, as being those who have taken over the responsibility for finding the dividends for the time being?—I did not quite hear your question.

2105. I desire to suggest to you that the traders and the passengers, under this Act, have taken over the responsibility of finding the dividends for the time being at any rate?—I did not know that. Do you say that they have taken over the responsibility for finding the dividends?

2106. Yes, the responsibility for finding the dividends, through the charges to be fixed by this Tribunal?—Yes; the charges are supposed to give us a net income.

2107. Then it is somewhat analogous to the purchase of a business, where the purchaser is very careful to look into at least the capital expenditure before he can agree to anything being done which is founded upon the capital expenditure. The

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traders have a very particular interest in these amounts of capital expenditure upon which you are claiming. You will agree with that, will you not?—I do not know that they have; the directors have, certainly.

2108. You do not say that they have not?—You seem to me to be putting it rather high.

2109. I do not want to put it too high, but you will agree at least that they are responsible in effect for supplying the dividends under the Act?—The rates and charges that are to be given to us will, or should, give us a net income.

2110. So that whatever may have been the position with regard to these accounts, whether they have been passed by the Government, or audited,

or whatever it may be, you will agree that they stand in quite a unique position, and that the traders have a right to ask for them to be reopened, seeing that so much depends upon it?—Do you mean the capital accounts of the company?

2111. I mean the whole of the 1913 accounts.—Of course, that is what the Act gives, the net income of 1913. How you are to arrive at that is a matter for the Tribunal to say.

President: Are you going to ask any questions, Mr. Worrall, or are you going to confine yourself to the point of interpretation?

Mr. Worrall: I should like to ask some questions, Sir.

President: Very well.

Cross-examined by Mr. WORRALL.

2112. If you would allow me to suggest it, I should be glad if you would endeavour to look at this matter more from the point of view of the passenger than from the point of view of a high railway official. I hope I may make my questions direct. I want to know as to the objective. I think you will agree with me that "R.T. 4a," and the very first account in "R.T. 4a," is really the objective of the company. This is an objective account, is it not, the first account in R.T. 4a?—What do you mean?

2113. That is a summary of the whole of the claims?—Yes.

2114. And it really shows the position upon which this Tribunal is endeavouring to arrive at a decision?—To fix the standard revenue.

2115. The standard revenue?—Yes; that is what this claim is intended to be.

2116. With regard to the Great Western, that is placed in a column by itself, for comparison with the other companies, naturally?—I do not know that it is. It is placed in a column to show the amount of the standard net revenue that it claims. I do not know that there is any comparison with any other group.

2117. At any rate comparisons are very useful?—They may be.

2118. Naturally. Now let us take the Great Western Company. You notice that the ratio of the claim, if you take the first figure as the unit, is as 1 is to 7, while the London, Midland and Scottish Company is as 1 is to 20.

Mr. Locket: Which figures are you referring to, Mr. Worrall?

Mr. Worrall: It is the first statement in R.T. 4 (a), Mr. Locket: Which figures are you referring to?

Mr. Worrall: I am referring to column 4, Sir, the Great Western Railway Company, the first item and the last item of the total summation, as it has been called, of the claim.

Mr. Locket: Do you mean the £8,222,000?

2119. Mr. Worrall: Yes, Sir; that is the result.

(To the Witness): That is the result, is it not?—Yes.

2120. I take it that if you compare the figures, the Great Western Company are placed in a much better light than, for example, the Southern Railway?

—How do you mean "in a much better light"?

2121. The claim of the Southern Railway is only £532,000, for some reason?—They have spent less capital, obviously. The Great Western Company, in the 20 years before 1913, have notoriously spent a tremendous sum in capital expenditure for the purpose of extending and developing their undertaking.

2122. Quite so. Therefore the reason for this sum is that there is a very much larger capital expenditure?—Yes.

2123. Now I want to take you away from this schedule. I do not know whether you heard my cross-examination of Mr. Quirey yesterday, did you?—Yes, I did; I was here.

2124. I want to ask you some questions with regard to the double accounts system, as it is called?—Yes.

2125. It would be a very easy thing to make mistakes in the cash book, of revenue receipts or capital receipts, as the case may be, by putting

small items into the wrong column, of revenue or expenditure?—I do not agree.

2126. You do not agree?—No. It is practically impossible.

2127. You say it is impossible?—Practically speaking, yes.

2128. Is there not a very great similitude between expenditure of capital, and revenue, in many respects?—There is a clear-cut difference, is there not?

2129. Take wages?—Well, take wages.

2130. Is there, in your company, the Great Western Company, a very clear earmarking of the difference between capital and revenue in respect of wages?—Yes. If a man is on a capital work, his wages are allocated to it.

2131. How do you distinguish between a capital work and a revenue work?—I am not here to give those definitions, I think.

2132. It is very important to this Inquiry, I take it, that there should be a clear distinction. That is the whole point of the discussion between the different representatives?—Really a new work is capital and an additional work is capital.

2133. But if you cannot define it clearly and you are the head accountant, it must be very hard for the inferior accountants to define what is the difference?—I do decide these things.

2134. Do you supervise the whole of the book-keeping transactions?—I think I do; yes; I try to.

2135. When the auditor comes on the scene, how is he to know, if you do not?—But I do know.

2136. I took it that your answer was that you could not define it?—I did not say that. I said that I was not here for that purpose, but if I am here for that purpose I will give you the best lesson that I can.

2137. I take it that it is a very important distinction?—I have told you that an additional work is a charge to capital.

2138. But I am asking the question as to whether there is not a very great defect in the double accounts system on this specific point of the distinction between the two?—There is a clear-cut distinction.

2139. Do you take special pains to see that that distinction is always observed?—Yes, I do myself.

2140. Over the whole of the transactions?—Yes; the whole of the capital transactions come before me personally.

2141. Let us have the distinction between them.—I have told you. A new work is a charge to capital.

2142. That is to say, an absolutely new work?—A new additional work, yes.

2143. Now take your revenue. This Tribunal has got to decide what is the actual revenue. Referring to this account again, the assumption is that this £8,000,000 revenue of the Great Western Company is what is intended to be the actual revenue if we take into account various circumstances putting the whole thing together in fair proportion. You get £8,000,000 in that way?—That is our claim for standard revenue, £8,000,000 odd.

2144. It has been done in fair proportion. There is a line struck, and you get £7,174,000?—Yes.

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2145. And then it goes up, in the result, to £8,000,000?—Yes.

2146. And that result is arrived at by deducting, in the first place, £780,000?—They are charges which are not represented by stock.

2147. Now we come to the £7,000,000. Do you take it that that £7,000,000 below the line is what is actually the fact; that that is the revenue in respect of freights, passenger rates, and all other things except interest? Will you be prepared to say on your oath that that is the actual fact, that that is the revenue?—The revenue for what?

2148. For freights.—For the year 1913?

2149. Yes, 1913.—To the best of my judgment.

2150. Not to the best of your judgment, but absolutely. Is this the fact, that that was the revenue, £7,174,000, for freights and passenger charges, because, after all, that is what we have got to crystallise this inquiry down to. The Tribunal have got to take out the extraneous things.

President: We quite realise that.

Mr. Worrall: Yes, Sir; I am putting it to Mr. Cope, because he has vouched that he has looked at all his capital transactions and seen that he has it all stripped off on the double account system.

President: It is very interesting, but would you ask Mr. Cope a question?

2151. *Mr. Worrall:* Quite so; I am in your hands. But I am sticking to it. (*To the Witness:*) I want to know whether that £7,000,000 odd represents the freights and passenger charges, because that is really the revenue?—And other things.

2152. Ah! And other things. What are those other things?—All the ancillary businesses; the income derived from those.

2153. Ancillary businesses? Now we are getting at it. There are all sorts of ancillary businesses which you want to bring into the revenue. From the passengers' point of view, the point of view of the man who pays the penny fare—and I want you to look at it like that—I want the Tribunal to see that you have got a correct revenue, and that this £7,174,000 you can say on your oath was the revenue?—I should not dream of saying that.

2154. My question is whether you would say that?—We have given you more than that.

2155. Why not put it down if it is more?—It is what we consider to be the net revenue of the undertaking as prescribed by the Act. You can get these figures from the accounts of the Great Western Company.

2156. Yes, but I will ask you this question: it says that they are "adjusted"?—Well, I have explained that.

2157. It says in brackets "adjusted," so that you can adjust it under the double account system just as you like?—That is not what is meant by that.

2158. I think you could, from my knowledge of railway accounts; you could split up the accounts in any way that you liked.

Mr. Locket: We have had all those adjustments explained to us.

Mr. Worrall: Quite; and I want to strip the accounts of the adjustments.

President: Then will you proceed to strip them?

Mr. Worrall: I will, Sir, if I possibly can.

2159. I want to know if you have any figures from the Great Western Railway Company showing freights and passenger receipts?—Yes, you will find it in the Ministry of Transport Blue Book.

2160. Should not that agree with this?—It does, as far as that is concerned.

2161. If we can prove to the contrary, we have scored on our case?—You have got to prove it.

Mr. Worrall: I will leave it there, Sir.

President: Very well. Does anybody else want to ask any question?

Mr. Worrall: I am going on to another subject, Sir.

President: Very well. Ask your question, if you please.

2162. *Mr. Worrall:* Now we come to Schedule "J.Q.1." This is another concrete summary upon

which we can to some extent depend?—I should say so.

2163. The result seems to be that some of the companies, which seem to be the wise companies—the wise Virgins, if you like—

President: Never mind about that; ask your question shortly, and do not trouble about comment.

Mr. Worrall: I must ask my questions, if you will allow me to do so, the same as the learned gentlemen are doing.

2164. I am upon "J.Q.1." The result is worded like this: "Apparent surplus," or "Apparent deficiency."—Where do I get that from?

2165. Why do you say "apparent"?—I did not prepare this statement; it was put in by Mr. Quirey.

2166. It is "apparent"; that is to say, it is not real. In fact, when you come to take this, you can adjust it all over the place, and get all sorts of things. The comparison, I take it, is a matter of capital expenditure, that is, the new capital raised, and the Government amount, which is not shown there, which is included in the last item, "Increase in free reserve." Amount put in by the Government. There is a good proportion of the last item received from the Government. What is done with these Government receipts, when they are received, from the point of view of book-keeping?—They are put into the bank.

2167. Never mind the bank; what is done with them from the point of view of book-keeping?—From the point of view of book-keeping?—I do not follow.

2168. Where is it put in the books? How is it sorted out?—It is shown in the account of Government compensation, and it stands to the credit of that account.

2169. What do you do with it?—Put it into the bank.

2170. What do you do with the entry?—Leave it there until we divide it up or take away from it.

2171. You adjust it just as you choose?—No, we can only adjust it according to actual facts. If we use it for dividend purposes, the amount in the account is reduced accordingly.

2172. But the way in which that is treated would have a very great bearing upon the result of this inquiry. It might have a great deal to do with the 1913 accounts?—Are you suggesting that I am falsifying the books in order to get at the figure?

2173. I do not say that for a moment; I do not suggest that there is any falsification, but there can be errors made very easily?—You forget that such a thing as that would be checked absolutely by the auditors; it would be checked by my own staff, first of all, and then the auditors would come along, and they would see that I did not tamper with the Government compensation.

2174. You said yesterday that the directors were the *ex cathedra* body who told you what you were to do with your capital expenditure?—Did I say that?

2175. I think so.—I do not think I did.

2176. You said this, that the directors authorised the works and therefore their statement as to where the money was to go to was the deciding authority, or words to that effect. I will look it up in the printed proceedings afterwards, but you did say something to that effect?—What question are you asking me now?

2177. I ask you whether you still adhere to that principle of the directors?—I do not recognise that as being the answer that I gave yesterday.

2178. Very well; I will take it that you differ from me, and I will look it up. But you did say that there was no exact science in book-keeping?—Book-keeping is not an exact science, is it?

2179. It is not an exact science?—No.

2180. Book-keeping does not actually show the facts?—It does, to the best of its ability.

2181. Ah! But does it show the facts in the case of the Great Western Railway Company as to the distinction between capital and revenue?—I say that it does.

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[Continued.]

2182. You say that it does?—Yes, and I have said so before.

2183. If we can show that those figures which you say are the amount received from freights and fares are not true figures in the case of your Company, the Great Western Company, then we shall disprove your statement that your books are correct?—I have told you that that includes other things besides freights and fares.

Re-examined by Mr. CLAUSON.

2186. You were asked about the Fishguard and Rosslare Company, and I think we can clear that matter up quite shortly?—Yes.

2187. The Fishguard and Rosslare undertaking was a joint promotion, was it not, of the Great Western Railway and the Great Southern and Western Company of Ireland?—Yes.

2188. There are a number of Acts, which I have here, and I think my learned friend, Sir Douglas Hogg wants the references to them.

Sir Douglas Hogg: I do not want them all. The one that I asked for was the section which the witness vouched yesterday, under which the company were under a statutory obligation to lend this money, £355,000, or whatever it was, without security. I understand about the subscription for the stock, but this was a loan.

2189. Mr. Clauson: The matter seems to stand in this way, that there is an Act of 1894, and there is an Act of 1898, under which, in Section 88, the Great Western Company and the Great Southern Company, with the authority of a general meeting, and so forth, "may subscribe for and take shares in or with the consent of the company by lending money on mortgage or subscribing for or taking debenture stock contribute funds towards the undertaking of the company to any amount which may be agreed between the said companies respectively."—Yes, that is Section 88 of the Act of 1898.

Sir Douglas Hogg: It is neither of those things, of course.

Mr. Clauson: That is up to the sum of £250,000.

Sir Douglas Hogg: The section that I wanted was the section under which there was an obligation to lend this money.

2190. Mr. Clauson: I will see if I can give you what you want. Section 71 of the Act of 1899 gives a similar power to subscribe for and take shares, or with the consent of the company to lend money for the undertaking to any amount agreed between the companies, not exceeding in the whole, including the 1898 account, the aggregate amount of the authorised share and loan capital of the company?—Yes; that is Section 71 of the Act of 1899.

2191. Then there is an Act of 1899 which sanctions an agreement which provides for the Great Western Railway Company working and managing the English side of the concern, if I may put it quite shortly?—Yes; working, managing and maintaining.

2192. Yes; it is the English side of the concern, and the steamboats?—Yes; the steamboats plying between Fishguard and Ireland.

Sir Douglas Hogg: Who pays for it?

Mr. Clauson: I am going on to that. I am sorry, but it is a little complicated, as unfortunately these things are.

Sir Douglas Hogg: Quite so.

2193. Mr. Clauson: There is an Act of 1903 which sanctions another agreement of 1903, and in Clause 1 (a) of that there is the provision that "The Great Western Company shall, subject to the payment of a due proportion of the expenses of administration of the Fishguard Company, be entitled to the receipts from the portion of the Fishguard undertaking in England, including the steamboat service . . . and shall be responsible for the interest due on the proportion of the capital of the Fishguard Company issued to meet expenditure on the portion of the said undertaking in England, including the said steamboat service," and it is to indemnify other companies—that is to say, the Fishguard Company and the Great Southern Company of Ireland—

2184. Other items of revenue?—Yes, it includes the net revenue derived from the ancillary businesses; docks, harbours, canals, omnibuses, and everything; and the rents from the property.

2185. That is all in the company's printed accounts, is it?—Yes, it is all in the company's printed accounts.

against all liabilities, "whether in regard to capital or revenue for expenditure incurred on the English portion of the said undertaking, including the said steamboat service"?—Yes; the expenditure and earnings of the company are in the Great Western Company's accounts.

2194. Yes, that is the way in which it works out?—Yes, so far as the English side and the steamboats are concerned.

2195. And is this correct, that the works for which the £355,000 was required were works at Fishguard on the English side of the Channel?—Yes.

2196. They were works authorised by these Acts; and the security for the money is the work itself, which is on the Great Western Company's land. Is not that the position?—It is on the land of the Fishguard Company on the English side.

2197. Yes; it is on the land of the Fishguard Company on the English side of the undertaking?—Yes.

2198. On that side of the undertaking from which the Great Western Company is responsible?—Yes, and for which they have found the money.

2199. And the Great Western Company hold Fishguard Guaranteed Debenture Stock for the amount of £135,000; is that right?—Yes; that is in respect of the £355,000.

2200. Quite; and accordingly if the Great Western Company were to take up from the Fishguard Company stock covering the balance of the expenditure?—Yes, about £220,000.

2201. —that would get the book-keeping entries into what one might call a more conversational form?—Yes, we should charge the capital subscribed to the Fishguard undertaking the moment we received stock for it.

Sir Douglas Hogg: I think, Mr. Clauson, that you used a rather ambiguous expression. You said that they held security for the £355,000, at all events of £135,000 Debentures. Does that mean that part of the £355,000 has been applied to the subscription of that amount of Debentures, or that that amount of Debentures has been deposited as security?

Mr. Clauson: If I may say so, I disclaim having used the words that my learned friend, Sir Douglas Hogg, has attributed to me, but I will endeavour to clear it up.

2202. Part of that £355,000 is represented by Fishguard Guaranteed Debenture Stock to the amount of £135,000?—Yes.

Sir Douglas Hogg: They have subscribed at par for £135,000 worth of Debenture Stock?

Mr. Clauson: That is the equivalent of it, no doubt.

Witness: The balance, £220,000, the Great Western Company have advanced to the Fishguard Company, and up till now they have not received any stock for it. Their security, of course, in the first place is the works themselves on their side.

2203. Mr. Clauson: And of course they are in a position to call for stock if they want to?—Yes, we can call for it.

2204. But that would, of course, simply be a formal matter?—Yes, quite so.

Mr. Clauson: I have the Acts here, and my learned friends may like to refer to them.

Sir Douglas Hogg: Perhaps I might have them later on.

Mr. Clauson: They will be at your service at any time when you want them.

2205. Now there are only one or two other small matters that I should like to mention. There was one point that my learned friend Sir Douglas Hogg put to you, and I want to clear it up. He drew your

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[Continued.]

attention to the fact that turning to the Returns relating to the railways of Great Britain for the year 1923 of the Ministry of Transport, on page 7, "Passenger traffic, excluding London Tubes," which in 1913 had been 1,002,000,000 odd, had dropped in 1923 to 1,000,000,000?—That is for all of it, excluding the Tubes.

2206. I want to clear this up. I see on the same page that the number of season tickets had risen from 354,000 to 894,000, say, in round figures, 300,000 more?—Yes, I think that is right.

2207. Is there any rough figure which is taken for each season ticket for the purpose of comparison as to the number of journeys for each season ticket?—Yes, I think it is 12 journeys a week.

2208. We will call it 600 journeys a year.

Sir Douglas Hogg: I should like to understand this, Mr. Clauson. Is it seriously suggested that the average number of season ticket journeys over all distances is two per day?

President: It varies, of course.

Witness: Of course it varies; but that is the figure that we work upon.

2209. *Mr. Clauson:* If that is the figure that you work upon, if you were to work upon that figure, you would, of course, make the number of passenger journeys in 1923 far in excess of that in 1913?—Yes.

(The Witness withdrew.)

Mr. ALBERT ERNEST WILLIAMS, SWORN.

Examined by the LORD ADVOCATE.

2214. Mr. Williams, are you the Deputy Accountant of the London and North Eastern Railway Company?—Yes.

2215. Have you been associated with Mr. Quirey and the other railway accountants in the preparation of the statements set out in the company's claims in respect of the standard revenue under Section 58 of the Act?—Yes.

2216. And are the principles upon which the claims are prepared the principles arrived at in conference between you gentlemen?—Yes.

2217. And have you, in general, endeavoured so to frame the claims as accurately to reflect, in your opinion, the true answer to the problem submitted?—Yes.

2218. I take it that you are, in particular, responsible for the figures relating to the London and North-Eastern Railway Company, which are contained in the brown book, "R.T. 2a"?—Yes.

2219. I do not know that it is necessary for you to explain afresh the principles upon which folio 1 has been compiled; I think that has been sufficiently elucidated already. Have you also prepared and produced a volume containing the published accounts for the year 1913 of the constituent and subsidiary companies now forming the London and North Eastern Railway Company?—Yes, there is one book containing those mentioned in the Act.

2220. I am coming to that in a moment. You have prepared, first of all, the large orange-coloured volume which contains the published accounts for the year 1913?—I have.

2221. In your case I think there is this specialty, that three railways which are not included in the First Schedule of the Railways Act of 1921 were in existence in 1913, and you have collected their accounts in a separate volume?—That is so.

2222. They are all minor railways, but we had better mention them in order to complete the position. Are those companies the Scarborough, Bridlington and West Riding Junction Railway, the Invergarry and Fort Augustus Railway, and the Hull and Barnsley and Great Central Railways Joint Committee?—They are.

2223. As a matter of history, was the Scarborough, Bridlington and West Riding Junction Railway absorbed by the North Eastern Railway in 1914?—It was.

2224. And, therefore, it did not come within the scope of amalgamation in 1921?—Yes.

2210. And even though that figure were twice as big as it ought to be, there would still be a substantial excess?—Yes. Of course a long-distance season ticket holder would not travel anything like 12 journeys a week. A local passenger who has a season ticket between Birmingham and a suburb, or between Paddington and a suburb, might travel a good many more times than 12 per week. The short-distance season ticket holder travels more, and the long-distance season ticket holder travels less.

2211. There is another point that I want to clear up. You were asked about the figures in the superannuation funds?—Yes.

2212. Can you tell me this? Is there some relation between the increase in the superannuation fund and the increase in the rate of wages?—Yes. A man's superannuation allowance is determined by the amount of his salary, and he pays contributions in his salary in the form of a percentage of his salary; and those contributions are as a rule doubled by the company.

2213. And accordingly an increase in wages would necessarily be reflected by more or less corresponding increases in the superannuation funds?—Yes, the company would have to provide a larger sum, obviously.

2225. With regard to the Invergarry and Fort Augustus Railway, was that worked by the North British Company from the 1st August, 1913, and purchased by the North British Company in 1914?—Yes.

2226. And I think the two partners of the Hull and Barnsley and Great Central Joint Committee, which was a "J" Joint Line, were constituents of the North Eastern, Eastern and East Scottish Group; and therefore that joint line was absorbed by the London and North Eastern Railway?—That is so.

2227. Have you a separate volume available, if desired, in which the 1913 accounts for those railways were collected?—I have.

2228. Now with regard to the adjustments in the case of the London and North Eastern on the published accounts. In your case I think the only adjustments related, first of all, to the 4 per cent. increase on goods train traffic rates, which came into operation on the 1st July, 1913?—Yes.

2229. The circumstances in your case are identical with the circumstances in the case of the London, Midland and Scottish, which have already been explained by Mr. Quirey?—Yes.

2230. In your company, how did you deal with the 4 per cent. increase?—I am speaking now for the North Eastern Railway Company.

2231. For the North Eastern Company, if you please, yes?—The amount was deducted from the sum entered in account No. 10 of the receipts and expenses of the company, and was transferred to a separate account, which, I think, was entitled "4 per cent. Increase in Receipts Suspense Account," and it was included in the balance sheet under the heading of "Miscellaneous Accounts."

2232. Do I understand that your accounts showed it under this name?—Not on the face of the published accounts.

2233. You transferred it, in your own domestic books, to a 4 per cent. Increase Suspense Account, and you carried that to Miscellaneous Accounts in your published accounts?—That is so.

2234. So that I think the result seems to be that your method of procedure has been very much the same as that of the other companies.

Sir Douglas Hogg: No; I think the difference is this, that this does show it in the balance-sheet, whereas the London, Midland and Scottish does not. In this case it appears under the heading of "Miscellaneous Accounts," as I understand the witness.

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[Continued.]

Witness: That is so in our case.

Sir Douglas Hogg: In the case of the London, Midland and Scottish Company it did not appear anywhere; it was a hidden reserve.

2235. *Lord Advocate:* But the principle upon which you proceeded was identical; I mean the reason for which you dealt with it in that way was identical with the reason which actuated the London, Midland and Scottish Company?—Yes.

2236. The 4 per cent. increase was put on by all the companies simultaneously, was it not?—Yes, I believe so; I have reason to believe that that is so.

2237. The other adjustment which you made in the published accounts relating to a deduction in respect of the interest on dividends or investments in other companies in the group, where those investments were cancelled as the result of absorption schemes?—That is so.

2238. And there, again, do you invoke the same reasons as have been expounded by Mr. Quirey for your treatment of that item?—Exactly.

2239. Then, of course, you have had to recast the published accounts of the working and non-working companies which were exempted under the Railway Companies Accounts Act of 1911?—Yes.

2240. That was in order to enable you to put the appropriate entries applicable to these companies in the columns of Schedules A and B?—Yes.

2241. And you show the recasting process in your Schedule G?—Yes, that is so.

2242. I do not think that any observation peculiar to your company arise upon Schedule A, but in the case of Schedule B have you also proceeded in the same lines as are shown in the London, Midland and Scottish Accounts?—Precisely.

2243. Having got Schedule "A" and Schedule "B" and carried the figures in those Schedules to folio 1, do you get in the case of the London and North Eastern Company the aggregate net revenues for the year 1913 of the constituent and subsidiary companies?—Yes, amounting to—

2244. £13,454,389?—That is so.

2245. Then one comes to the next three items which, in the case of your company amount in total, as claimed, to 14 millions?—That is so.

2246. And although relatively small compared to the figure of 13½ millions, I think the compilation of those three items has been attended with probably more trouble than the main item?—Yes.

2247. Taking first the third item, which is the capital expenditure forming the basis on which interest was allowed by the Government, and which falls to be included under Section 58 (1) (a), in your case also have you taken in the meantime a figure which is not a concluded figure in consequence of the fact that there are still some claims outstanding?—We have.

2248. You have a number outstanding, and in the figure, therefore, which you have entered of 5 per cent. on capital expenditure under this head, it is on a capital expenditure not yet completely ascertained?—That is so.

2249. On the conclusion of your negotiations with the Government you will observe the certificate which is contemplated from the Ministry of Transport showing the capital expenditure which formed the basis on which the Government allowed interest?—Yes; if instructed to do so.

2250. And that certificate will include the amount?—Yes.

2251. In the meantime, have you forecast to the best of your ability what the result of the final winding-up of your claims against the Government will produce?—I have.

2252. Then passing to compartment (b)—the allowance necessary to remunerate adequately additional capital raised or provided in respect of expenditure on capital account since 1st January, 1913, will you just tell us how you have proceeded in compiling that figure?—I have set out in Schedule D, folio 22, the items in respect of which the claim is raised. Those items include all amounts expended during the period with the exception of certain small sums.

2253. Have you had resort to account No. 5 of the constituent and subsidiary companies for the purposes of getting the capital expenditure?—I have.

2254. And have you in borrowing the figure of capital expenditure from account No. 5 of these various companies incidentally given effect to the credits which are shown in those accounts?—I have.

2255. Then have you for the latter portion of the period resorted to the net capital expenditure of the amalgamated company for the year 1923 as shown in No. 5 of the amalgamated companies published accounts?—I have.

2256. Which in turn gave effect to credits as well as to debits?—Yes.

2257. And the result is, therefore, that the figure upon which the allowance has been calculated is a figure of net expenditure over the period?—No; I could hardly say that.

2258. Well, how would you put it?—I would say that it is the net expenditure after giving credit for all sales and displacements of capital exhibited in the accounts, but without taking account of any sales or displacements which have occurred which are not exhibited on the face of the accounts.

2259. That is exactly what I meant. You have given effect to all the credits shown in account No. 5, first for all the constituent and subsidiary companies, and then for the London and North Eastern Company, since 1913?—That is so.

2260. So that in the case of your company, account No. 5 is what you proceed upon?—That is so.

2261. In your case were certain adjustments made at the amalgamation?—There were.

2262. In your case and in the case of the London, Midland and Scottish you have not, I understand, taken those into account for the purposes of this calculation?—No, I have not.

2263. Can you tell us what was the nature of those adjustments in the case of your company? What did you do on amalgamation in the way of re-adjusting capital account?—In the main those adjustments were made in order to co-ordinate the method of dealing with the capital expenditure of the various constituent companies to one whole for the London and North Eastern Company.

2264. Just pause there for a moment. When you made your survey of the capital accounts of all the companies which were just being brought into one hand, did you find there was some diversity of method among them?—Yes, there was.

2265. And as there was only to be one company for the future, had you first of all to bring them all under a common basis?—I had.

2266. That was a question of method of preparation of the accounts?—That is so.

2267. Can you exemplify any of those diversities which you encountered?—Yes. To take one of the larger cases of adjustment, certain of the companies had exhibited as a separate item on their balance sheet the value of the stocks and stores connected with hotels; others had dealt with them as an addition in the permanent capital expenditure of the company, shown in account No. 4. It was necessary to bring the two methods into line, and the necessary transfer was made.

2268. So that may I take it these are book-keeping adjustments, not involving any actual transactions whatever?—That class?

2269. That class. I am dealing with that class of adjustment for the moment?—That class.

2270. Had you any other adjustments to make at amalgamation?—I do not think I could say that we had adjustments of a different class to make. The adjustments were all made with a view to co-ordinating the accounts, but they did remove certain assets. Take the case in point; a transfer was made and the assets subsequently disposed of. To take a case in point, the Great Central Company held shares in the Wrexham and Ellesmere Company and included them in their capital account No. 4. The London and North Eastern Company transferred those to an account in the balance-sheet, and

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[Continued.]

in the course of the following year the investment was realised.

2271. How did you treat the proceeds of the investment?—They wiped off the balance which was standing to the debit of the shares account which would have been shown in the balance-sheet of 1923 had those shares continued in the possession of the company.

2272. Did you find in your case that there were any items still standing at capital account in any of the subsidiary companies relating to assets which disappeared before 1913. I mean was there any dead wood to cut out; that is what I am thinking of?—Yes. I think there were adjustments necessary in the case of a certain steamer.

2273. Was that an item which had lingered on in the accounts and should have been eliminated before?—Yes.

2274. Again did it represent a transaction on capital account after 1913?—No, not in the case of the steamer, I think.

2275. Is it your view that those adjustments which were made on amalgamation on your survey of the accounts of all the companies then brought into your hands have to bear upon the question with which we are dealing, namely, the compilation of the figure for compartment (b)?—That is my view.

2276. And it is upon that view that you proceeded? Exactly.

2277. I should perhaps ask you formally, before we proceed, with regard to the allowance necessary to remunerate adequately this additional capital. Is your account, as the London, Midland and Scottish is prepared, based upon 6 per cent. as the figure?—That is so.

2278. That is a figure which is agreed among the accountants to be applied, is it not?—Yes.

2279. And, again, do you invoke the same justification as to that figure as we have heard from Mr. Quirey?—Exactly.

2280. We do not want to repeat that; once is enough. I merely wished you to explain formally how it is done. As regards the expression "capital raised or provided," what have you brought into account as provided capital in contra-distinction to raised capital?—We have treated as provided all capital expenditure, whether raised from the shareholders or provided by means of accretions to reserve or other funds.

2281. In the case of your company, how did you stand in the matter of free reserves available for capital expenditure?—The increase in the free reserves, including a portion of the Government compensation, is £8,800,000.

2282. And the proceeds of new capital raised—that is, raised from the public, I suppose?—Yes.

2283. Is £4,401,453?—That is so.

2284. Adding the two figures together, you get £13,215,008 as the total capital expenditure?—That is so.

2285. Or, rather, the total capital raised and provided and free reserves?—Yes.

2286. Then there is in that way shown a deficiency of £622,489, in contrast with the total capital expenditure, £13,871,187?—That is so.

2287. That total figure I have just given was contributed by new capital raised, free reserves and a deficiency of £622,489?—That is so.

2288. Now can you indicate to us where that £622,489 was obtained from?—I cannot identify that figure in relation to any one item.

2289. I understood it is not possible to identify it with any particular work, but as that amount of capital expenditure was actually defrayed during the period in question, where was the money got from that was actually paid to contractors or others?—From the excess of the floating assets over the floating liabilities of the company.

2290. You cannot, I suppose, trace it to any particular source—to any ear-marked source?—No.

2291. Then in the case of the third compartment—compartment (c)—which is Item 5—there you have, as I understand, as the London, Midland and

Scottish have done, collected together from your records all the works costing over £25,000 for a period of 15 years before 1913?—That is so.

2292. And have applied the artificial formula which was concocted among the accountants?—Except in one instance.

2293. Which is that?—That is in an item to be found on page 25 of the London and North Eastern book.

2294. That will be in Schedule "E," I take it?—In Schedule "E." The item is described as, "Land and Property in London district, available for future widening." The date brought into use is left blank. Interest is calculated at the rate of 5 per cent., and £26,250 is the amount of the allowance claimed.

2295. We might just deal with that for a moment. It is a sum of £500,000. For what purpose was this land acquired by the Great Central Railway Company?—As I understand, for the purpose of widening the line.

Lord Advocate: Now this land was providently acquired?

Sir Douglas Hogg: There is no evidence of that. *President:* Was it purchased when the original line was made?

2296. *Lord Advocate (to the Witness):* Was it purchased at the time the line was constructed or subsequently?—I think at the same date.

2297. Having been so purchased?—May I amend that answer? It was purchased between 1895 and 1904. The purchases were spread over a good many years.

2298. That is the cumulo amount of the purchases—£525,000?—Yes.

2299. Had that land been brought into use on the 31st December, 1912?—Not in any way for the purposes it had been purchased.

2300. *President:* How was it being used?—I think it had been let off, perhaps, to small holders on temporary tenancies.

2301. *Mr. Jepson:* It was bringing a small revenue?—That is so.

Lord Advocate: Where would that revenue go?—That revenue would be included in the standard revenue of 1913; but in calculating the price at £525,000, the actual cost of the land was taken and a deduction was made for the capitalised value of the small rents received.

2302. *Mr. Jepson:* This is the balance after capitalising annual rents?—Received in 1913.

2303. *Lord Advocate:* So that the figure which you have entered in the statement represents really the unremunerative capital outlay?—That is so.

2304. Then how have you dealt with it for the purposes of this account?—We have claimed 5 per cent. upon the whole amount.

2305. That is £26,250?—That is so.

2306. Now will you tell us your justification for doing that?—It seemed to me that the amount was of such an exceptional nature that it justified an exclusion in this one particular from the general average that we had set ourselves to adopt for fructification.

2307. You gave it exceptional treatment?—Altogether, because it evidently had not fructified at all up to date.

2308. In so far as it was yielding anything—that is to say, yielding rents—you have given credit for that I see?—That is so.

2309. But in so far as it was yielding nothing, you treat it as not fructifying at all?—That is so.

2310. Sterile for the time being?—Yes.

2311. Is that the reason why you have applied 5 per cent. to it and not your sliding scale?—That is so.

2312. *Mr. Jepson:* Is it remunerative at the present time beyond the rentals?—No.

2313. It has not really been utilised for the purpose for which it was obtained—for widening or whatever the purpose was—and, therefore, it is not remunerative so far as rates and charges are concerned?—That is so.

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[Continued.]

2314. *Lord Advocate*: If no allowance is made at this stage in respect of that expenditure, do you find any provision in the Act of 1921 whereby that expenditure can ever be remunerated?—No.

2315. Assuming that the land, which I see is described as available for future widening, is applied in future for widening for railway purposes, the land will then be available; but there will be no provision for the remuneration of the capital expenditure in the purchase of that land?—That is so.

2316. There is a general item in Schedule "E": "Great Central Railway: London Extension Railway," on page 24, is there not?—There is.

2317. There is a series of large sums amounting to about 10½ million pounds. Are these the items of capital expenditure referable to the London Extension?—They are.

2318. If one carries one's eyes along to the last column—Column 12—the total allowances claimed in respect of the 10½ millions expenditure, amount to about £14,000, I think?—That is so.

2319. And is that an enterprise which has fructified to any extent yet?—Yes.

2320. To what extent?—Certainly I should say not to a full extent.

2321. You have told us generally how you have compiled your claim. I think there are one or two matters to which you wish to refer specially which I think have already been discussed. First of all there is a figure of £30,351 entered as, "settlements completed in respect of traffic of previous years in abeyance." Are you familiar with that item?—Yes. That is the Great Northern Company.

2322. Is that in Schedule H, folio 42?—Yes.

2323. What does that item represent?—It represents the settlement of pooled traffic accounts between the Great Northern Company and other companies now forming constituents of the London and North Eastern group.

2324. In the case of the Great Northern Railway was that amount entered separately in account No. 8?—It was.

2325. In the case of the other companies concerned, was their share of the settlement dealt with in account No. 10?—It was.

2326. So that to bring the two accounts into unison you must adopt one or other method of dealing with this item?—That is so.

2327. So as not to affect the total of the standard revenue?—That is so.

2328. Then there is a series of items which are referred to by the Minister of Transport—two sums of £50,000 in particular, and a sum of £150,000 in the case of the North Eastern Railway Company, which will be found at page 6 of the large volume?—That is so.

2329. Attention has been drawn to those items. The first is Reserve for Pensions, £50,000; the second is a general reserve fund of £50,000—Suspense Account, Renewals and Contingencies, £50,000—and Reserves for revenue charges in respect of electric equipment of line, £150,000. The suggestion that is made is that these might more fitly be treated as deductions from revenue—expenditure upon revenue—rather than appropriations of revenue earned. You remember the point, do you not?—I do not know that the suggestion was made.

2330. The suggestion is referred to by the Minister?—I beg you pardon.

2331. What I wanted to have was your explanation of those items. Take first of all the Reserve for Pensions, £50,000?—That was a sum set aside by the directors out of the balance available for the payment of dividends without, so far as I am aware, reference to any liability which had arisen in respect of the year 1913, or indeed had arisen, so far as I am aware, at all at that time.

2332. Was it in respect of any deficiency then existing in any superannuation or pension fund of the company?—Not to my knowledge.

2333. Why was it made?—I think to provide a nest egg possibly for revision of benefits of pension fund

which might be undertaken in the future, and having in view the pension funds existing at that date.

2334. Then may I take it that it was not a liability chargeable against the revenue of that year?—Not in my opinion.

2335. Take the next item: Suspense Account, Renewals and Contingencies, £50,000. I do not think there is any question with regard to the general reserve fund of £50,000. That is not appropriated to anything in particular, but take the suspense account, renewals and contingencies item of £50,000. Was that appropriation made in respect of any known item of renewal due to be carried out?—No.

2336. Was it allocated to any particular asset or class of assets?—No.

2337. Was it accordingly, in your view, not a debit against the revenues of that year?—In my view, as accountant at that time, all the debits proper to be made in that year had been made and provided for in the accounts.

2338. But the company apparently, instead of carrying this total sum of £300,000 to General Reserve, had chosen to designate portions of it under particular titles?—That is so.

2339. With regard to the last item, which is a large item of £150,000, can you tell us the genesis of that entry?—Yes; it was in connection with the inception of electrical working of a mineral line, I think, perhaps, the first of its kind in the country.

2340. That was, I think, from Sheldon to Newport?—Yes—in the county of Durham. The line being of an experimental nature, I think the directors wished to have a free hand in the future as to whether they would deem it advisable to charge the whole expenditure to capital or provide for some of it from other funds, and in this year they determined that they would equip themselves to deal with it without charge to capital being necessary if the experiment signally failed.

2341. So that that entry is really a reflection of the policy of the directors at that time?—Undoubtedly.

2342. *President*: What was the nature of the experiment?—The electrical haulage of goods and mineral traffic.

2343. *Lord Advocate*: Was there any obligation incumbent upon the directors in the year 1913 to provide for this expenditure out of revenue?—Not in any view.

2344. In your view was any portion of the cost of the electrical equipment of the railway a revenue liability of 1913?—No.

2345. Accordingly is there no justification, in your submission, for any portion of that sum being held to represent a working expense of the year 1913?—That is so.

2346. Generally, in connection with the North Eastern Railway accounts for 1913, was provision for maintenance of wasting or depreciating assets, in accordance with the practice of the company, made before the sum available for dividends was reached?—It was.

2347. In your opinion was the provision so made adequate?—Quite.

2348. Would you tell us what was the practice of your company in dealing with the question of renewals and depreciation fund? Perhaps we could have an expression from you as to how you dealt with it?—With certain classes of assets—rolling stock and permanent way—it was the practice of the company to calculate on a basis of life the proper annual charge for renewal.

2349. Did you assume that the particular thing—the locomotive or wagon, and so on—would have a defined period of life?—That is so.

2350. And then you provided on that basis?—Yes.

2351. Did you apply that to all your assets?—Not to all assets. Buildings, stations and certain hydraulic machinery, of which the life was not definitely ascertained, would be dealt with by charging to revenue the expenditure actually incurred on the renewal of those assets during the year, and in

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addition substantial sums were added in the accounts where there was any thought on the part of the directors that possibly, owing to the very full traffic of the year 1913, opportunity had not been afforded to remodel stations or yards to the extent that might have been done in an ordinary year of less traffic.

2352. So that the policy was to adopt, I take it, a method of dealing with this matter which varied according to the nature of the assets you were dealing with?—It was.

2353. In some cases a life was assumed and a depreciation account framed on that basis?—Yes.

2354. In other cases the matter was dealt with through renewal account and revenue account?—Yes.

2355. These matters were considered, of course, by your company?—Very fully.

2356. Attention has been drawn to one or two other points—relatively small items which I am sorry to delay over. But I believe the learned Solicitor-General is interested in them and you may as well provide your comments. With regard to the Great Eastern Railway Company, there is a sum of £10,000 designated as reserve for cottages for staff. Have you investigated that sum?—Yes; that sum is as stated, and when expended, I understand rents will be charged for the cottages occupied.

2357. Is that properly to be considered as a working expense of the year?—Not at all, in my view.

2358. Was there any obligation on the company to lay aside that sum?—Not as far as I am aware. I cannot conceive that there can have been.

2359. And you see, therefore, no ground for the deduction of that £10,000 in the compilation of the claim?—No.

2360. Take another item of £20,000: Great Northern Railway Company, special renewals. Have you also looked into that item?—Yes.

2361. Will you tell us about it?—This sum was set aside for special remodelling and reconstruction works by the Great Northern Company. It was appropriated out of the revenues of the year after they had been charged with all working expenses proper to be paid.

2362. Why were they not made the subject of an entry against capital?—They occasionally did not involve a physical addition to the assets.

2363. And again, did this expenditure represent anything of an obligatory nature forming, in your opinion, a proper debit against the revenues of the year?—No; it did not arise as a liability of that year.

Cross-examined by Sir DOUGLAS HOGG.

2374. You are, I gather, an accountant employed by the North Eastern Railway?—I was the accountant of the North Eastern Railway, and I am the deputy-accountant of the London and North Eastern Railway.

2375. Do I correctly gather from some of the questions you have answered that you are also a railway expert?—No; I have not claimed that. I have made inquiry into certain items.

2376. For instance, you have been giving your expert opinion as to the sufficiency of allowances for renewals and maintenance of the line. Is that an inquiry that you have made, or because you claim to be an expert on the actual working of the railway, apart from accountancy?—I am afraid I cannot make that claim.

2377. Then we can disregard that part of your evidence. No doubt there will be someone competent to give that evidence. I am not criticising, because most of the evidence you gave, I think, was merely assenting to my learned friend. It is difficult to differ from your own Counsel?—I speak from knowledge of the North Eastern.

2378. But from your knowledge of the figures?—Not knowledge of the actual working of the line of traffic?—That is so.

2379. You have explained to us very plainly what you have done with regard to your 58 (1) (b) claim. You have claimed all the capital expenditure because

2364. There is an even smaller sum: Great Northern Railway Contingency Fund, £5,000. What is the explanation of that item?—It was a sum provided to meet unforeseen contingencies. That, again, was not in respect of any known liability of the year 1913.

2365. And therefore not debited properly against the revenues of that year?—That is so.

2366. We have already quoted Section 22 of the Companies Clauses Act of 1845, which empowers the directors as to dealing with profits before striking a dividend. Are these matters which you have been dealing with matters which, in your view, are left within the discretion of the directors in the appropriation of earned profits?—Absolutely.

2367. Were any of those appropriations made the subject of criticism by the Government during their period of control?—No. The accounts were accepted by the Government at a point prior to the appropriations mentioned, but no suggestion was ever made, as far as I know, that the accounts above that line should be in any way amended.

2368. Then for the North British Railway Company there is an item of Special Reserve, £20,000. To what does that refer?—That is in connection with the construction of a new dock at Methil.

2369. On the Firth of Forth?—Yes. In the course of the construction of a new dock, occupying a period of six or seven years, as the dock came near completion it became necessary to make certain alterations in existing facilities at the other docks at that place. This sum was set aside in order to provide against the revenue charge arising in respect of that remodelling or rearrangement of the feed lines.

2370. In the case of that sum, is that an appropriate debit to the revenues of 1913?—Not in my view. If borne by revenue, it seems to me it should be borne over a course of years rather than in one year, as being an exceptional item larger than the North British Company would deal with in the normal course in any one year.

2371. It was not a debit against any particular year as having been incurred in that particular year?—No.

2372. And, therefore, if it is to be brought in at all, it would have to be spread?—That would be my view.

2373. I think these are the only items in the accounts which you have compiled to which attention has been drawn by way of criticism. If there are any others which arise, you will do your best to afford explanations upon them?—Yes.

you say that the capital must have been provided or else it could not have been paid; that is what it comes to, is it not?—That is so.

2380. I notice that the expression "capital provided" actually occurs in your big book. Did you notice that? Take, for instance, the West Riding Railway, I think it is. This begins at page 277. Have you got that?—I have that.

2381. I notice in the case of your railway, as we have ascertained in the case of one or two others, if you look at page 278 there is a heading as to the capital powers and other assets available to meet further expenditure on capital account?—That is so.

2382. That is to say, that when there is expenditure on capital account there is an account showing what capital powers there are available to meet it, and the answer which you set out there is that the further capital is provided by the Great Northern and Great Central Companies in equal proportions?—Quite.

2383. You have there the very expression which the Statute uses. That means to say that in the case of the West Riding Company it does not raise capital from the public, but the capital which is required is provided for it by the two companies which are, I suppose, working it jointly?—That is so.

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2384. And unless there was some provision in the Statute for capital provided in that way being included in the case of a company like the West Riding, it would never get any allowance, because it has no power to raise capital from the public?—That is so.

2385. Now I want to ask you some questions about matters which—I daresay it was my own fault—I did not entirely follow. For instance, to begin with, you told the Lord Advocate that the figure you got for (1) (b) was: Net expenditure after giving credit for displacements and sales shown on the face of the accounts, but not giving credit for those not shown on the face of the accounts. Do you remember giving that answer?—Yes.

2386. What were you referring to in the latter part of that answer? What are the displacements and sales which are not shown on the face of the accounts and which therefore you do not bring in?—Adjustments made on amalgamation of the accounts.

2387. What you meant to say there was, you gave credit for all displacements and sales, but you did not give credit for adjustments made on amalgamation; is that right?—No; or take debit. The adjustments were in both directions and they were entirely disregarded.

2388. But apart from the question of adjustments on amalgamation, have you given credit here for all the displacements and all sales made by any of the constituent companies since 1913?—Yes.

2389. In the case of a station, for instance, being altered—or were any of them ever abandoned and closed down?—I have no doubt there were some.

2390. How do you deal with it? Supposing a station is closed, what allowance do you make in your capital account?—I am sorry it is not within my experience having to deal with it.

2391. I thought you said you had no doubt there were some?—I have no doubt there were some.

2392. How were they dealt with when that happened? What allowance have you made in respect of that capital which has become displaced and is no longer profit-earning at all; or have you made none?—I will have to refer to my memory for what I know has happened. Where capital assets have gone out of use on the North Eastern Railway credit would be made to capital account.

2393. Can you give me an instance? You say you have no doubt there are some, and you would know that better than ourselves. Just tell me some of the stations which have been allowed for, so that we can check them in the account and see what allowance was made?—I am afraid I can only refer—

2394. I only want to see how you are getting out the account?—On page 11 of “R.T. 2a,” under the heading of Great Northern Railway, there is: Holloway Station, Cr. £12,266.

2395. Yes, I see. Now just explain how that is arrived at?—I did not make that entry myself, and it was not made under my responsibility. It was made by the accountant.

2396. I thought you were producing this document as being the witness who was responsible for it?—For extracting it from the accounts.

2397. I only want to know. Is this a document for which you do or do not accept responsibility?—For which I do.

2398. Then we need not trouble about what you were saying. It was a mistake when you said this entry was one for which you were not responsible?—It was.

Lord Advocate: He did not prepare the Great Northern accounts for 1913. He has taken it from the accounts of 1913. He is responsible for taking it.

Sir Douglas Hogg: Do not listen to the Lord Advocate.

Lord Advocate: Please do.

2399. Sir Douglas Hogg: Please do not listen to the Lord Advocate when he makes statements of fact which he has no right to make, because he is not in the witness-box. Tell me, do you say that these items are taken from the accounts of 1913—

this 53 (1) (b)—as the Lord Advocate just stated?—Of 1913?

Sir Douglas Hogg: Of 1913. I understood them to be items incurred since January, 1913. I see the great bulk could not possibly occur in the accounts for 1913.

Lord Advocate: I meant in the accounts of the separate company.

Witness: This is in respect of capital expenditure incurred since 1st January, 1913.

2400. Sir Douglas Hogg: So I thought.—It does not follow that this credit was given in the year 1913. 2401. That is what I thought, and you agree with me?—Quite.

2402. It shows how wise I was to tell you not to listen to the Lord Advocate. I agree with you it does not in the least follow. The probability is that it was some later year?—Yes.

2403. And that therefore it is not in the accounts for 1913; that is right, is it not?—Yes.

2404. It follows, does it not, that if it was not incurred in 1913, it would never appear in the accounts for that year?—Yes.

2405. Let us get back to what the real point is. Where did you get the £12,266 from in fact, and how was it compiled? What does it represent?—It would represent the engineer's estimate of the original cost of constructing that station.

2406. What relation would it have to the amount shown in the capital account of the company as being the cost of that station?—It would be the nearest approach to the cost which the engineer was able to give.

2407. The station may have been built, and probably was built in the case of the Great Northern, half a century ago?—Yes, that is a difficulty the companies have to face.

2408. Then does this represent the engineer's estimate of the original cost of construction, or the cost of making it in 1913, or the cost less depreciation, or what?—The amount standing in the books of the company in respect of it.

2409. That would not be a matter for an engineer to estimate?—He would estimate the capital cost of the work at the time that it was undertaken.

2410. Would there be anything in the company's accounts—I do not know, and you do, of course—which would show the cost separately of the different stations?—I think in certain cases that might be searched for and found in the early records, but that would be in very few cases. In the great majority not.

2411. As you have got to that page, I noticed you said, in answer to the Lord Advocate a little while ago, that you had excluded one item to which the Solicitor-General referred as capital because it involved no physical addition to the assets. That struck me as rather a useful definition. Just look at that page, the fourth item below the one to which you have just called attention. Do you see an item of £12,266 for Parliamentary expenses?—Yes.

2412. Does that involve a physical addition to the assets?—I do not think anything I have said suggests that a physical addition to the assets is an absolute essential to a charge to capital.

2413. At any rate, Parliamentary costs are included as items which have been incurred since the 1st January, 1913, and which have enhanced the value of the undertaking?—Yes.

2414. How much do you say this £13,000 for Parliamentary costs has enhanced the value of the undertaking?—I mean that it seems they are part of the essential cost of establishing a new line of railway.

2415. That is a different proposition. I asked you how much this expenditure of £13,000 had enhanced the value of the Great Northern? How much more was it worth as a going concern by reason of this £13,000?—That is an impossible question for me to answer; but that it was worth something more I have no doubt at all.

2416. Why?—Because either its life was continued or its powers extended.

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2417. It may have been spent in unsuccessful opposition to other people's Bills?—No; that would not be charged to capital.

2418. What is that charged to?—That is charged to law expenses.

2419. What do these Parliamentary costs represent?—They represent the cost of Bills procured by the company.

2420. What Bills are in these Parliamentary costs, so that we may see whether they have increased the value of the Great Northern Railway or not?—Any additional powers obtained by the Great Northern.

2421. What, in fact, are included in these Parliamentary costs?—I am afraid I have not that detail with me.

2422. For aught you know they may not enhance the value of the undertaking at all?—Except that I know they were what are considered proper charges to capital.

2423. There might have been disputes—such inter-necine strife has been known—between the Great Northern and one of the companies with which it is now amalgamated. Is not that possible, or does that strike you in these halcyon days as impossible?—It is more than probable.

2424. And I dare say that might have resulted in the triumph of the Great Northern or the Great Central over one of the other undertakings?—No doubt—to the advantage of the Great Northern.

2425. And to the corresponding disadvantage of the Great Central, or whatever company it happened to be. It is possible, is it not?—Quite possible.

2426. Then it would not seem that since all are amalgamated the net result was an enhancement of the value of the joint undertaking?—I could not agree with that. As a whole the enhancement might be there. It is possible that the advantage to the Great Northern Railway exceeded the disadvantage to the Great Central.

2427. Or *vice versa*; you cannot tell. Unless you could tell us what it was for it would be impossible even to form a guess?—Quite.

2428. So much for that. There was another item which you were telling the Lord Advocate about which I did not quite understand, and that was an illustration about your adjustments on amalgamation. There were some companies which showed their hotel stocks in one way and some in another. I have no doubt the Tribunal followed it, but I am afraid I did not quite. Will you give me an illustration?—Yes; I can probably find a concrete case.

2429. That is probably the simplest way.—If you take page 78 of the book and account No. 18—that is the balance-sheet of the Great Northern Railway Company, on the asset side—the credit side as marked, you will see at the foot: "Hotels, refreshment rooms and dining cars, stock and effects." In certain of the companies' expenditure similar to that would have been charged in account No. 4.

2430. As a capital expenditure?—As a capital expenditure.

2431. Whereas in the Great Northern Railway it was not charged as a capital expenditure?—That is so; it was not so charged. It equally upheld as an asset.

(Adjourned for a short time.)

2451. Before the adjournment you were telling my learned friend, the Lord Advocate, your reason for not including as deductions certain items on page 6 of this large book. I understand there were questions which were raised by the Ministry of Transport?—Yes.

2452. Have you got that page before you?—Yes.

2453. I should like to ask you a few questions with regard to that. First of all, were those reserves shown in the accounts for 1913?—They were.

2454. And were they passed by the auditors as being correct, audited and signed without any qualification?—They were.

2432. What in your view is the right way of dealing with the stock of consumable stores like that? Ought they to be included in the capital account or not?—I do not think these are consumable stores.

2433. The stock held in refreshment rooms, we hope, would be consumable stores?—So far as relates absolutely to stock, I think probably your question is right, and that it would be dealt with as stock.

2434. And not in capital account?—Not in capital account.

2435. Did some of the railway companies before amalgamation treat it in capital account and some not?—Yes. I think I have taken an illustration that does not help you very much.

2436. Perhaps it will help me. Let us follow it out. Since we have got it, I would like to clear it up. Some of the railway companies treated these stocks of consumable stores as capital expenditure and some did not?—I beg your pardon; I got on to a wrong figure. I came to the conclusion, in looking at it in a hurry, that the figure included furniture and other matters. The item I was really looking for was in the Great Eastern account, at page 55. You will find at the foot of the same account—

2437. A similar entry?—Not quite similar, if I may say so. It is stock and effects.

2438. That is the same wording as is used in the case of the Great Northern?—Included in that figure of stock and effects of the Great Eastern, there are a good many items which the other companies would charge to permanent capital.

2439. Would charge to capital?—To capital account No. 4.

2440. On adjustment, which have you done?—We have separated the figures as between stock and capital account No. 4.

2441. Do you mean that these consumable stores have been taken out of the capital account and put into another account?—They have been left in the stock account.

2442. Taken out of the capital account?—They have not been in the capital account No. 4.

2443. I thought you said in some companies they were?—I think—only the furniture and effects.

2444. Some of them did not put any part of the furniture into capital account and some did?—That is so.

2445. And now you put them all in?—Yes, that is so.

2446. And thereby increase the capital account. That was the sort of illustration you wanted to give us?—Yes; that is the reverse side of the entry.

2447. Are there some cases in which things have appeared as capital before amalgamation which since amalgamation have disappeared from capital—the reverse process?—Yes. If you wish for an example, take the same account of the Great Eastern in the case of horses.

2448. Where shall we find that?—On page 45 of the printed accounts, in the left-hand column—£59,000. That has been transferred to the balance sheet as a contra to the No. 4 account.

2449. You have taken it out of capital and put it into somewhere else, have you?—That is so.

2450. You treat the horses now in the same way as consumable stores?—As the stock.

2455. I suppose it was the directors who did it, was it not?—Quite.

2456. And I suppose we may take it that, in your view, the directors applied their minds to the question of whether these reserves were proper or not, and decided that they were proper?—Undoubtedly.

2457. The largest item is a reserve for revenue charges in respect of electric equipment of lines. That is what they have described the item as to their shareholders and to the public?—Yes.

2458. And that is the description which the traders accept as correct?—Yes.

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2459. Assume for the moment that the directors were right in saying that this £150,000 was a reserve for revenue charges in respect of electric equipment of lines, not capital charges. Do you follow?—Yes.

2460. It would be quite right to deduct it from the revenue account?—Not for the year 1913.

2461. Why not? If in 1913 it had become necessary to create a reserve for revenue charges of £150,000, surely it would be right to debit that to the revenue account, would it not?—I do not think it follows.

2462. Of course I can understand your saying that the directors were wrong, that there was no revenue charged, and that it was all capital. That was what you told the Lord Advocate. I want you to assume that the directors were right and the auditors were right and, in fact, that this is not a capital but a revenue item, and that in 1913 the state of the electric equipment of these lines was such that it was proper, from a business point of view, to make a reserve out of revenue of £150,000 to meet revenue charges. Will you assume that?—Yes.

2463. Do you say, then, that it is not right to deduct it from the revenue account of the year?—1913?

2464. Of the year in respect of which it was thought wise and prudent as a business matter to create that reserve for revenue charges?—Quite.

2465. Do you still say you ought not to deduct it?—Yes.

2466. Will you tell the Tribunal why not?—I think I explained that this reserve was created in view of the experimental nature and the doubt that would exist for some time as to whether prudent business men would require to charge any portion of the expenditure against revenue rather than against capital.

2467. Yes, you explained that, in your view, there was no revenue charged, and that this was all a capital item. I understand that you say the directors were wrong. I want you to assume that they were right; do you follow?—Yes.

2468. Assume that. Do you still say that, although it is a revenue charge rightly so described, and although it was right as a matter of ordinary business prudence and management to appropriate this revenue debt out of the year 1913, that it ought not to be deducted from the revenue account?—Yes, in respect of the year 1913.

2469. Why, if that was the right year in respect of which it ought to be deducted, why should it not come out of the revenue account?—But I have no information that that or any particular year was the right year. I have no indication.

2470. Having no indication as to the right year, you say it ought to be any year except 1913?—No. If the charge eventually had fallen against revenue then I should be prepared to admit that a portion of it, at any rate, should be charged against 1913.

2471. What has happened to that reserve?—The electrification of that line cost a good deal more than the original estimate.

2472. That often happens with an experimental work; a good deal of money may be wasted?—I hope you will not take me as agreeing with the waste, I hope. Practically the excess expenditure over the original estimate was charged to the reserve, and the balance, roughly £100,000, became free for any other purpose.

2473. What has in fact happened to this reserve? Does it still appear in your books, or where has it been transferred to?—It did appear in the books of the North Eastern Railway Company at the 31st December, 1922.

2474. Where has it gone to now?—It has gone into the general reserve for renewals, I believe, of the undertaking.

2475. It has been transferred to general reserve for renewals?—Yes.

2476. How much did the electrical equipment of this experimental line cost; what was the estimate of what it ought to have cost?—Beyond what the first estimate cost?

2477. What it ought to have cost?—I think £50,000.

2478. Had the electrical equipment taken place in 1913?—Partly.

2479. To the extent of over £150,000? To what extent?—To the extent; I speak from memory—

2480. Yes?—Of well on to £100,000. The line, I believe, was opened for traffic in 1914—just.

2481. What was the total expenditure on electrical equipment of this line?—Again, from memory, £157,000.

2482. Just let us look at the other items here. Look at reserve for pensions.

2483. *Mr. Locket*: Before you pass to that, Sir Douglas, I am very anxious to understand what this item really did represent. (*To the Witness*): It was not a reserve for deficiency of revenue in the year 1913, I understand?—Not in the way the line—

2484. Was it a reserve for an anticipated deficiency of revenue owing to the experimental nature of the work in future years?—It was, if I may say so, in case the cheapened cost of haulage by electricity, compared with that of steam, was not sufficiently great to make a return upon the capital.

2485. Upon the capital expended in electrifying the line?—I think that is so.

2486. It was to meet a possible contingency?—That is so.

2487. *Sir Douglas Hogg*: I now want to ask you about the other two items, reserve for pensions, £50,000. That, I assume, was again appropriated by the directors as being prudent and proper, having regard to the then condition of the pension fund?—It was to a certain extent linked up with the pension fund. It was in the nature of a general reserve, and was eventually not used for the pension fund.

2488. I am not asking you about the general reserve. I am taking the specific reserve for pensions, £50,000?—I am speaking of the nature of this £50,000.

2489. This was described to the shareholders and to the Board of Trade as being a reserve for pensions?—Yes.

2490. I suppose that was an honest and truthful description of what the directors intended it for?—Yes.

2491. So that the directors, when they drew up their 1913 accounts, thought it wise and prudent in the proper conduct of their enterprise to set aside £50,000 as a reserve for pensions?—That is so.

2492. And I presume also that if the directors thought that was wise and prudent that was having regard to the then condition of the pension fund and to the probable calls which were likely to be made upon it. That is what they have taken into account, is it not?—Calls which, in their discretion, might be made.

2493. Certainly, in their discretion; they being the people who are responsible for its administration.—I merely wish to accentuate the fact that there was no known liability.

2494. You mean the directors have a large discretion as to what pensions they shall give?—Undoubtedly.

2495. And when taking into account that discretion and their belief as to how it ought to be exercised, they thought it wise and proper, in the then condition of the pension fund, to appropriate £50,000 as a reserve for pensions?—Yes, out of the profits.

2496. You say that such a reserve, properly made, in 1913, and passed by the auditors, ought not properly to be debited to the revenue of that year?—Not as a working expense of that year.

2497. Why not? Never mind about a working expense. Why not in arriving at the net revenue of that year; that is what we are discussing.—No, not in arriving at the net revenue of that year.

2498. Why not?—Because the net revenue of the year is the gross revenue of that year after charging expenses which would properly be borne—

2499. If the directors thought it proper that year to appropriate that £50,000 in order to put the pensions fund in what they regarded as a proper condi-

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[Continued.]

tion, why should not that be properly debited to that year?—Well, I do not agree that the directors did charge that year.

2500. That will have to be argued later. Let us assume for the moment that they did charge that year. On that hypothesis then it would properly be debited, would it?—If they had charged that year it would have been debited before the profits were ascertained.

2501. You quite accurately pointed out that the pension fund reserve was created out of the profit. In that sense of course it was appropriated after the profits were ascertained, but if it was a proper appropriation to make out of the profits of that year in order to put the pensions fund in what the Directors considered a proper condition having regard to their discretionary powers of administering it surely it ought properly to be debited to the expenses of the year?—Had it been included in the expenses of the year I should agree; but it is not.

2502. Now, the suspense account, renewals and contingencies; that is to say, the Directors thought it right having regard to the condition of the line to appropriate £50,000 for renewals, and contingencies, whatever they may be?—I am not aware that they took into account the condition of the line.

2503. You think that when they settled how much they should appropriate to renewals they ignored the condition of the line; they did not take that into account?—That had been taken into account in the working expenses.

2504. When they appropriated this for renewals they ignored the condition of the line which it was intended to make?—No. I think the inference would be that having performed what was necessary under the working expenses part of the account they provided for contingencies unforeseen by an appropriation of profits.

2505. You see, one of the words used is "renewal." Probably one of the contingencies they were providing for was renewals?—Yes.

2506. You say that when they provided that £50,000 for renewals, or whatever part of it was necessary for renewals, they ignored the condition of the line which they were proposing to renew?—I say they had taken that into account before deciding upon this reserve.

2507. I will assume they had. You say that when they appropriated this sum for the purpose of renewals of the North Eastern Railway Company they ignored—they did not take into account—the condition of the line at all. That is your answer?—They may have had in mind the condition of the line; but the provision was for something unforeseen, and which could not be foreseen.

2508. At any rate, they thought it a prudent and necessary provision to make having regard to the circumstances as they then existed?—No doubt.

2509. Now we know how your view is arrived at. Now, you went on to say, in your view the depreciation and renewals were proper amounts. That, of course, I gather from you is merely information that you have derived from someone who is competent to speak, because it is not a matter about which you have any personal knowledge?—Except so far as an accountant of the North Eastern Railway Company I had that information.

2510. Of course, an accountant is good at figures, but an accountant is not an expert on the condition of railways.—He carries out the instructions of the engineer.

2511. You went on to explain that in the case of some assets there was an estimate made of a probable life. In regard to the other assets the rolling stock was charged—the actual money spent on renewal was charged instead of taking a depreciation?—Yes.

2512. And you went on to say that owing to the full traffic you had in 1913 some of the work which you would have liked to have been done had been unavoidably deferred?—I think I put it that in cases; there, again, as you pointed out, I was perhaps getting past my province as an accountant.

2512a. 1913 was in fact a very profitable year, was it not?—Yes.

2513. Almost a high water mark. And having regard to the busy state of the traffic it was not possible to undertake the renewals and repairs which otherwise would have been done in that way?—I am not able to say whether it was possible or not, but the possibility of its not having been done no doubt was considered.

2514. It would obviously affect the accounts?—Yes. 2515. Whether it was done sufficiently or not is a matter which can only be ascertained by investigating the accounts and seeing how that year compares with others?—That is so.

2516. One other item about which you gave evidence, and about which I want to ask you some questions is an item which appears on page 25 of "R.T. 2a," the small book. Have you got the page?—Yes.

2517. "Land and Property in London District—Available for future widening." That is land which as I understood you to say was purchased from 1895 onwards down to 1904, was it?—I believe so.

2518. Many many years, at any rate, before any of these accounts with which we are now concerned?—Yes.

2519. And which apart from certain small lettings which have been taken into account before you arrive at this figure has never been of any use to the railway company?—That is so.

2520. And is not being used now?—No.

2521. And may never be used?—I am afraid I cannot answer that.

2522. So far as it goes, one of the effects of the amalgamation is that the London and Northern Eastern Railway have a number of accessions to London instead of the old Great Central only having one?—Yes.

2523. That renders it less likely that it would be necessary to use this particular widening?—I am only an accountant, but it seems to me that if those accessions are already fairly occupied there is room for another.

2524. You have not heard of them starting to use this widening at present?—No.

2525. And for aught you know they never will. You cannot tell. In that state of facts you are asking the users of the railway to pay 5 per cent. per annum on this expenditure which was incurred anything from 20 to 30 years ago?—That is so.

2526. And which is at present of no benefit to the users of the railway, or to the railway?—I agree.

2527. And which may never be of any benefit to either of them?—That is for the future.

2528. I understood that you had used this arbitrary formula of 15 years at $1\frac{1}{2}$ per cent. because in some cases it might happen that the works would take more than 15 years to fructify, and on the others it would take less, and so you took an average?—I agree.

2529. And I gather the way you work out the average is if you find cases in which it operates against the railway company it is not to apply, it is to be treated as expense, and if you find a case which works against the users of the railway then it applies?—One case to which I drew attention—

2530. It happens that was a large item?—Yes, it was.

2531. Let us look back at another; I think it is almost first in the same schedule. No, it is in the earlier schedule in regard to this widening. On page 24 you have set out year by year items which aggregate something over £10,000,000, and the Lord Advocate explained how generous you had been. You were only asking £14,000 a year. I notice that whereas in the half-year ending December, 1899, you spent £300,000, in the previous half-year you spent nine and three-quarters millions. Is that right?—Do you get that from this statement?

2532. Yes, look at the top of page 24.—The item does not show the year in which the money was spent.

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2533. What does it show?—It shows the year in which the work was brought into use.

2534. Then it is not the date at which the expenditure was incurred; it may have been incurred many, many years before the 15 years?—Yes; in dealing with 15 years you come across cases where it is very difficult to establish a date; and the expenditure is probably the best guide to the date.

2535. I had understood that the formula was taken by taking the time at which the expenditure was incurred?—In many cases; but where there is a definite opening that date has been taken.

2536. Where the effect of applying that rule would be to exclude a large sum from any remuneration, then you do not apply it?—No, I should not adopt that rule.

2537. How much do you think of the nine and three-quarter millions would be included if you took your own formula of the time when the money was spent? About 5 per cent. of it, I suppose?—Well, I could not say.

2538. At any rate, the great bulk of it would disappear altogether?—The great bulk of the £9,700,000 was no doubt spent before 1899.

2539. And the only reason you take the opening date instead of the formula date of when the expenditure is incurred is because the effect of taking the formula date would be to exclude it altogether?—No, we did the work from the time that it begins to earn.

2540. With regard to all these other items in Schedule E, have you put them in at any date other than that at which the expenditure was incurred?—I beg your pardon.

2541. Which other items in Schedule E are not taken according to the formula of when the expenditure was incurred, but according to the date when the work was opened?—They were practically all taken at the date when the work was brought into use.

2542. Then in your case you have not taken the date when the expenditure was incurred?—Quite, if we could get at a more definite date of opening.

2543. May I take it that none of these are taken at the date when the expenditure was incurred, or if any of them, can you tell me which, because the two things are quite different. You see, they produce a different result?—In the majority of cases that result would not be affected by one-eighth per cent. of the result; it is only in the larger cases where the expenditure goes on over many years that there is any considerable effect on the figures.

2544. Which of these items were expenditure incurred items, and which of them are brought into use items? Let us follow on: The £9,745,380 was a brought into use item. At what date was the £9,745,380 in fact brought into use?—In June, 1899.

2545. In the month of June actually?—In the half year ending June.

2546. I am asking you when it was that the Great Central Railway opened its extension by bits, not all at once?—I have not the date by me; I am sorry.

2547. Take the next item, £333,177. Is that a work which was brought into use during that half year, and, if so, what was the work?—Either work brought into use or expenditure—

2548. I am asking you which it was. I am suggesting to you that the way you have compiled this account is that where one formula operates against the railway, you ignore it, and where it operates against the users of the railway, you insist on it. That is what I am testing. I want to know whether you have applied your formula in the sense of expenditure incurred after the date on the other items or not. Do you know?—Wherever possible the formula is based on the date brought into use.

2549. Was it ever possible except with regard to that nine and three-quarter millions?—Yes undoubtedly.

2550. Perhaps at some time you can have your "R.T. 2a" marked up, showing which are items

based on the brought into use date and which are items based on the expenditure date?—Yes.

2551. Now I pass from that item, and I want you to look at a few smaller items, about which you can, perhaps, give a little explanation. Will you turn first to page 7 in "R.T. 2a"? You will find there an entry which constantly occurs. You see under Land and Buildings, about five from the bottom, Transfer from land, property, &c., not forming part of railway or stations?—Yes.

2552. What is the meaning of these entries of transfer? You see, this is a heading which purports to contain capital expenditure. I want to know what is the meaning of including in that a transfer from land or property?—Land previously included under one head, in Account No. 4, has been transferred to another in accordance with the use to which it has been put.

2553. Does that mean that this is an item in which the £10,199 had been spent some time before January, 1913, and is transferred in your books from one account to another?—Yes.

2554. So that it is not capital expenditure incurred since January, 1913, at all; it is merely capital expenditure incurred before January, 1913, and transferred in your books from one account to another at some subsequent date?—Yes.

2555. There are a whole number of these items in the transfers appearing in your accounts, are there not? I can find several others if you like. Look at the next one; transfer from lines open for traffic, £71,000?—I beg your pardon.

2556. Will you look at the next item; transfer from lines open for traffic, £71,000; that is the same thing, is it not? I would like you to give to the Tribunal, if you can, your justification for claiming that the expenditure was incurred after January, 1913, when, in fact, it was spent before that date?—The effect of those transfers in the way we have prepared this statement, is merely to establish a charge in one place compared with a credit in another in the same statement.

2557. Just show me the credit for this £71,000, or for the £10,199?—I am afraid I cannot refer you to the direct credit. I can only assure you that it has the effect I say.

2558. Mr. Jepson: Will you look at the previous page, page 6, and under lines open for traffic, I do see an item there, Transfer to Manufacturing and Repair Works, £73,005, and this is a transfer from lines open for traffic to land and buildings under Manufacturing and Repair Works and Plant, £71,938?—I cannot identify the exact amount in every case; they are exact, but I cannot always trace them.

2559. Sir Douglas Hogg: Turn on again to the next page. I am only asking for illustrative items to try and understand your principle. I see Land, Property, etc., not forming part of railway or stations, and the biggest item, or nearly the biggest item, is Cleveland—Deepwater Quay, £100,000. Can you tell me what that was? It seems such a funny round figure for the work?—That was, I believe, land bought for the extension of the Cleveland Deepwater Quay.

2560. Then was the Cleveland Deepwater Quay extended?—It was bought for a new quay which was to be established, I think, in proximity—I am not sure of this—to the Middlesbrough Docks.

2561. Was the new quay established?—It was not.

2562. So this is land bought and never used?—Yes.

2563. And you are asking the users of the railway to pay you 6 per cent. upon the £100,000 from the date when you bought the land, although you have never erected any work upon it?—That is so.

2564. You say £100,000 was the amount which was paid?—I believe it was.

2565. It rather looks like a deposit which might have been forfeited.—It was the purchase of land.

2566. Some of us have had some experience of buying land, and the amount very seldom comes out to such a nice round sum as that; there are generally such things like solicitors' costs, and so on. Do you

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know how it came to be a round figure of £100,000?—I cannot take my mind back as to whether it was an exact figure at that time. I know it was as near as possible £100,000.

2567. At any rate, that is what you say it is, land bought and never used?—Yes.

2568. And that is why you are asking the users of the railway to pay 6 per cent. per annum in perpetuity from the date of purchase?—The Act having provided no means of giving it to the companies otherwise.

2569. Are you quite sure of that?—I have not been able to find—

2570. You do not mean of giving it to the traders; you mean of giving it to the railways?—I mean to the companies; I thought I corrected myself.

2571. So that the basis is that everything that is spent must somehow or other be given to the railway companies, and if you cannot find it in one schedule it must go into another. That is right, is it not?—With certain small exceptions.

2572. Are there any exceptions?—There is a smallish item, I think, rolling stock.

2573. Rolling stock that you bought since 1913; I do not mean, of course, in substitution of old rolling stock, but any increase. Have not you included that?—No, I do not think we have any. Yes, we have; it is under Schedule E.

2574. I thought so. Are there any exceptions at all then to that rule? I mean, I think that is a good working rule from the railways' point of view. —I think there is no exception.

2575. That is what I rather gathered. Just look at page 15 in order to explain it. There are two items there which nearly, but not quite, balance each other, and I would like them explained. You see under Docks, Harbours and Wharves two items, Methil Dock and Burntisland Harbour, £83,179 and £596,451. —Yes.

2576. And then you see at the bottom of the page, Subscriptions to Other Companies—Burntisland Harbour, Transfer to Docks, Harbours and Wharves, Credit £654,828. The two items do not quite balance, because the debit is £20,000 more than the credit. —Quite.

2577. It looks as if they had some relation to one another.—I have no doubt it must be so.

2578. Could you explain what the meaning of those entries is? It is not clear to me.—I think this followed on the acquisition of the dock by the North British Railway Company.

2579. Still it is not quite clear.—This is a transfer from one head of Account No. 4 to another caused by the North British Railway Company becoming the owners of the property in respect of which previously they had subscribed to a separate undertaking.

2580. That means that they had become shareholders, does it, in a company which owned Burntisland and had spent £654,000 in subscribing for shares. Is that it?—I assume that is so.

2581. Then what happened next? Did it come to grief, or how did they change from the position of shareholders into the position of owners who expended all this money?—They did become the owners; I do not quite know the circumstances.

2582. You do not know what they paid, or what happened at all?—No.

2583. It looks as if it was an item which wanted a little explanation, does it not? At any rate, you are not able to give it?—I cannot give the explanation myself.

2584. I see that in 1913 they had subscribed £656,653, that is on page 103 of the big book, which is nearly, if not quite, the same as the credit item?—That is the figure I was referring to. There would be slight adjustments of that figure before they became the owners of the undertaking.

2585. In order to ascertain whether they had expended capital on Burntisland after January, 1913, we should want to find out what in fact had happened. Burntisland in some way is put in as an item on which the North British Railway Company had

spent £596,000, and the Methil Dock as if it was an item on which the North British Railway Company paid £83,000. In fact, it looks as if both those docks had been constructed some time before 1913 by some company in which the North British Railway Company held a large share capital?—That is so.

2586. No doubt that can be elucidated later. At any rate, you cannot explain it now?—No.

2587. Just let us look at the next item on the next page—again, I am only selecting illustrations. Brackenhill Light Railway: Construction of Railway, £65,013. Can you explain what that item is?—That is the amount expended by the Brackenhill Light Railway on the construction of their line.

Mr. Jepson: What page is this?

2588. Sir Douglas Hogg: It is page 16, the last item but two. Brackenhill Light Railway: Construction of Railway, £65,013. I notice in your big account, at page 130, when we look at the Brackenhill Light Railway the total authorised capital in 1913, at any rate, was £72,000, of which they had spent £50,000; roughly, there is a balance of £24,000 before the beginning of 1913?—That is so.

2589. They would have a difficulty in spending another £65,000 out of the £20,000 left, would not they? They had no free reserves, had they, or even superannuation fund?—No, they had to borrow.

2590. Do you know what happened at all about it?—Yes, they borrowed from the North Eastern Railway Company.

2591. And the £65,000 is money borrowed by them and spent by them on building their railway?—Practically the whole of it.

2592. I suppose that there is an Act of Parliament or something which authorises them, is there?—I am not sure about that. There is an Act of Parliament or a Provisional Order.

2593. That can easily be checked, of course. Now will you turn on to the next page where it says "London and North Eastern Railway, year 1923." That is a heading under which there are a large number of items entered, extending over some three or four pages. Did your railway avail itself at all of any of the Trade Facilities Act provisions?—No, I think not.

2594. You think not?—I am almost sure not; but I have not handled it myself.

2595. You think that none of these works were works in connection with unemployment in respect of which the Government gave assistance?—I believe there was no assistance derived from the Government in regard to them—one moment, may I perhaps correct that?

2596. If you please.—The only case that I am aware of where capital was being expended which might have been dealt with in that way, was in the case of some workmen's dwellings at Darlington; but I cannot say whether any of that is included in this figure. I think not. It was mostly expended before this date.

2597. Now let us turn on to Schedule E and look at that. Again I am only taking illustrations. I see some very big items on the very first page, which is page 23, in connection with dock extensions. There is Alexander Dock, £146,000, and Middlesbrough Dock extension, £280,000, and so on and so on. Those docks surely had come into working long before 1913, had they not? They were built to meet the requirements as they were believed to be in 1899 and 1900?—They had come into work on the dates shown.

2598. And they were pretty fully occupied long before 1913, were they not?—Yes; but not incapable of taking anything further.

2599. They were pretty nearly working at their full capacity?—I am afraid I cannot say as to that.

2600. You would not like to say that they were not?—No.

2601. Then looking a little further down the page, again as an illustration, I see that there is a warehouse, the Newcastle New Bridge Street Warehouse, in December, 1906, which comes to something over a quarter of a million pounds. You have no knowledge as to whether or not that was fully utilised

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for goods long before 1913, have you?—No; but it is one of those items which would fructify rather more quickly than the average.

2602. You do not make an exception of that?—No.

2603. I am only taking illustrations. The land and property in the London district we know all about, and I do not want to ask any more questions about it. I see that it is not only in London, apparently, that land is brought in for prospective widening. Will you turn on to page 29?—Yes.

2604. Do you see on that page, under the heading of "Liverpool Central—lands, etc., for prospective widening," a whole series of items, six or seven of them, running from December, 1903, to June, 1906?—Yes.

2605. Were they ever used for widenings?—I think that if they had been used for widenings they would have been shown under the head of widenings in this account.

2606. I think so too.—I do not suggest that they have been used.

2607. It is land which is bought under those words, and remains unused ever since?—Yes, exactly similar to the land at Marylebone.

2608. In fact it is bringing in nothing. Have you capitalised any small holdings, or are these not let?—If they had been let I think we should have taken off any rents received from the capital value.

2609. So that that is the position, so far as you know?—I beg your pardon; in this case these are being dealt with just as any other works, and we should not have given credit for any rents which occurred in 1913.

2610. Are you getting rents from these?—I am afraid I cannot answer that question.

2611. At any rate you did not buy them as?—Not as rent-producing items, no.

2612. They were bought for future prospective widenings, and nothing else?—Yes.

2613. And they never have been used?—Not up to now.

2614. And they may never be used, for aught you know?—It is quite possible.

2615. And, in fact, you have never constructed any works upon them at all, have you?—Not on this land which is shown here.

2616. Did it occur to you, when you were putting those items in, that it is only "works" which you can bring in under Section 58 (1) (c)?—The question did occur to me, but we had had rather similar statements to prepare for the Government, with almost identical wording, when land was brought in.

2617. Do you mean that under Section 58 (1) (a) you brought in land?—Yes.

2618. There is nothing about works which enhance the value of the undertaking in the Government part, is there?—We considered works and land to be inseparable, for this purpose.

2619. Surely it was very simple to separate them here, because there are no works; there is only land?—That is so.

2620. Then it would have been easy to leave them out; but of course that would have offended against the formula that the railway company must have it somehow.

Mr. Lawson: Is that quite a fair way of putting it?

Witness: You cannot have works without land.

2621. Sir Douglas Hogg: But you can have land without works, can you not? I know that faith without works is dead, but land without works may be unproductive?—That is so.

2622. Is there any other reason for putting it in, except the formula, or because everything must be found somewhere in the Schedule, for the railways?—No.

2623. If that reason is not a sound one, there is no other. Now there was an item which, again, I did not quite understand—I apologise to the Tribunal if they did understand—and that is in Schedule II, on page 42. You gave my learned friend the Lord

Advocate an explanation of the item which I have no doubt is an admirable one, but I am afraid that I did not quite follow it. Will you please be patient with me and tell me what it was?—Yes. On the settlement of traffic pooled between the companies now parties to our group, it was ascertained that the Great Northern received this sum of £30,000, and other companies to the group found that money to pay the Great Northern out of their share.

2624. That is to say, the Great Central, or whatever company it was, paid the Great Northern £30,000 in respect of some traffic. Would it be on joint lines?—No, it might not be joint lines.

2625. At any rate it was pooled traffic?—Yes, pooled traffic.

2626. Yes?—The Great Northern separated that item and showed it separately in its Account No. 8 as a special item.

2627. Yes, a revenue receipt?—A revenue receipt, yes. The other parties dealt with their corresponding payments without disclosing them separately in their accounts.

2628. But they appear in the accounts lumped in with other items?—Quite so.

2629. They did not create a hidden reserve there, the wrong way about?—No.

2630. And therefore?—Therefore the contention is that it is right to include in the revenue of the Great Northern Company the £30,000 which has been dealt with by the other companies on the reverse side.

2631. Just let me follow that. You say that you have in the Great Northern Account—for what year is it—1913?—Yes.

2632. In that year there is included in the accounts this £30,000?—Yes.

2633. On the other hand, in the other companies' accounts there is included—not specifically, but in bulk, in the accounts—the same £30,000, as moneys which they spent?—That is so.

2634. So that when you amalgamate the two accounts, the one will wipe out the other?—Yes.

2635. Your view would be that the £30,000 ought to be deducted in arriving at the net revenue? Is that it?—No; it ought to be included.

2636. Is it not in already?—It is in already; it is mentioned as a special item in this schedule.

2637. Mr. Jesson: What do you mean by saying that it is in already? Do you mean that it is in already in the net revenue account?—It is in "R.T. 2a."

2638. We know that it is in here, but is it already included in one of the net income accounts of one of the constituent companies?—Yes, in the Great Northern case.

2639. Sir Douglas Hogg: It would be in the item of £2,218,644, which is the fourth item in column 2 on page 2.—Yes; it is in the figure of £70,515 in column No. 16.

2640. That is what I am not quite following. I am sure it is my fault, but I understood you to say that in the published accounts of the Great Northern for 1913 this amount was brought in as one of their revenue items or receipt items.—Yes.

2641. Therefore it would be included in their total of £2,218,644, their receipts, would it not?—No; in the outside column.

2642. It appears where?—In one of the columns.

2643. I see there is £70,515 in column 16.—Yes, that contains the £30,000.

2644. Does that appear in the 1913 accounts in that form?—Yes.

2645. Let me see it, if you will, because I should like to check it off. I see it says: "Settlement completed in respect of traffic of previous years in abeyance, £30,351."—Yes, that is page 71.

2646. You are only explaining why it is that you put it in?—That is all.

2647. Obviously it appears as a debit in the other railway companies' accounts and as a credit in the Great Northern Company's accounts, and it is right that it should remain in that way when you come to amalgamate the two?—That is right.

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Mr. Clouston: I think there is a corresponding explanation with regard to the other three items which make up the seven.

President: They are all in "H."

Sir Douglas Hogg: I have no doubt that it was clear to the Tribunal before; but I had not got it quite clearly in my own mind, and I wanted to clear it up. That is why I ventured to take up time over the matter.

President: We were very glad to have your assistance.

2648. Sir Douglas Hogg: Have you had an opportunity of looking at this useful little compilation of the Ministry of Transport for 1923?—Yes, I have it.

2649. You remember that Mr. Cope was asked a few questions about it, do you not?—Yes.

2650. I see that in the case of your railway also, which is Group No. 4, in addition to the receipts from capital issued there are receipts shown from other sources of £281,000 in 1913 and £419,000 in 1922, and the item for 1923 is not compiled. That is only in round figures. Do you see that?—Yes.

2651. Will you tell me what those receipts from other sources are? Apparently they are capital moneys provided from some source other than the issue of capital. Is not that so?—Yes. In the case of one of the companies in our Group, the Great Eastern Company—I am dealing with large portions of the sum, do you follow?—they had provided a fund for the redemption of debentures. The typical item is shown in the Great Eastern accounts on page 45 of the large volume. I cannot speak with authority upon this subject, because I am not responsible for the preparation of the Ministry of Transport figures.

2652. No; I quite agree.—I can only conceive that the two items "Mortgages redeemed" and "B Debenture Stock Redemption Account" are the two larger items which you refer to.

2653. I see that there is a provision of capital for the redemption of other debentures which had been previously issued, I suppose?—It is a provision out of revenue in one case.

2654. What do you say about it?—It is a provision made out of revenue to extinguish the debenture stock.

2655. I suppose that was under the provisions of the issue?—Yes.

2656. That in each year there should be a provision out of revenue to meet this capital expenditure?—Yes, that is so.

2657. And therefore as soon as that was done it would properly come in as a receipt on capital account?—Yes.

2658. I follow. It would be irrecoverably appropriated to capital by this entry?—That is so.

2659. So that, apart from the capital which you raised from the public, there were certain moneys which you provided for capital account in that way?—Yes.

2660. And unless there was some stipulation under Section 58 for capital which was provided from other sources as opposed to capital raised from the public, you would not have been able to get any remuneration in respect of that item?—No, I think not.

2661. Now I just want to follow it with one or two other items of your own account. I see that you also had been very successful in increasing your Superannuation funds and your Depreciation funds and reserves by very large amounts. But you were not quite so lucky as the Great Western Company; your capital actually brought in, in 1913, 4.06 per cent., and to-day it brings in 4.3 per cent.?—Yes.

2662. You would seem to be so, would it not?—As shown by this statement.

2663. That may partly be because your expenditure ratio is rather high?—Yes, quite so.

2664. Will you kindly look at the Statistical Section? Again, I do not want to go through a great number of figures, but I see that your railway company seems to have been very unfortunate in finding its traffic falling off. If you look at the passenger traffic, to begin with, that fell from 250,000,000 tickets in 1913 to 227,000,000 tickets in 1923?—Accompanied by a great increase in the number of season ticket holders.

2665. How many journeys is it that you allow for each season ticket?—Six hundred journeys a year is the usual allowance.

2666. And of course your company electrified, did it not? The old North Eastern Company electrified its lines, or a great number of them?—No; only in two places. The Tyneside was the only passenger line that was electrified.

2667. Would you not expect that to enormously increase the suburban traffic?—Yes, but that was electrified long before this.

2668. When was it electrified?—According to my memory, it was in 1905.

2669. You think that it had fully fruited by 1913, do you?—No, but it certainly had fruited enough to prevent its making a very great change between 1913 and 1923.

2670. You do not think that there would be much change after 1913. Now look at the Mineral and Goods traffic. There, again, you have the benefit of electrification, but I see that in 1913 there was a total of 137,293,940 tons, and in 1913 it had dropped to 129,000,000 tons, and that in spite of the Ruhr coal traffic which came your way?—In spite of the electrification of 26 miles out of 22,000.

2671. There has been a heavy falling off in goods traffic?—Yes.

2672. It looks as if it was not practicable to try and extract more money out of the railway users by increasing the charges?—That seems to me to be attributing the whole falling off in trade to railway charges.

2673. Some people think that it has a good deal to do with it, do they not?—That is a fact.

Cross-examined by Mr. F. G. THOMAS.

2674. There are just one or two matters that I want to ask you about. Your company is the only one out of the four groups that has not divided up the Government Compensation Fund. It still appears in your accounts?—It does.

2675. You have made certain appropriations from it, but the figure that is given on Mr. Quirey's table for the addition to your free reserves, involves a division of that fund which has not been in fact made by the directors?—That is so.

2676. In your balance sheet, it is account No. 18 of your accounts for 1923?—Yes, I have it before me.

2677. The amount of that fund stands at the figure of £12,754,114?—Yes.

2678. Would you tell me how you have allocated that as between detected purposes and general reserves?—It was allocated largely in the proportion of the allocation made by those companies who had made the division.

2679. It is not a matter which has been considered by your board at all?—No.

2680. You have assumed, at any rate for the purposes of this statement, that your board has taken a course which they in fact have not taken, and distributed this fund in the way that other companies have done?—Yes, as near as we could ascertain.

2681. Perhaps you can give me the figure that you have taken. Of this figure of 124 million pounds, how much have you treated in this table as free reserves?—Six and a half millions.

2682. And it is by adding on 6½ million pounds to your general reserves and contingent funds and certain other reserves, that you bring out the figure of £13,248,000 which was given in Mr. Quirey's table in the first column, showing that you had a deficiency on free reserves as compared with capital moneys which you had devoted to capital expenditure, of £622,000?—That is so.

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[Continued.]

2683. Could you give me the corresponding figure to the one which I had from Mr. Quirey and from Mr. Cope, as to the amount of free reserves which appears, not as reserves on the face of the balance sheet, but which is put into other accounts? I suppose it would be largely in the miscellaneous accounts, would it not?—Which year are you asking me about?

2684. The last year, 1923?—All these reserves making up the figure which you have mentioned are set out on the face of the account, except the $6\frac{1}{2}$ million pounds.

2685. The $6\frac{1}{2}$ millions, as I understand it, is the imaginary appropriation from the Government Compensation Fund?—Quite; and it cannot be traced on to the balance sheet as an item.

2686. Do you see an item in your balance sheet of "Miscellaneous Accounts"?—Yes.

2687. Is there nothing there in the nature of a reserve?—Nothing which I have considered for this purpose.

2688. The money in that account you have not treated as free reserves?—That is so.

2689. It is not included in your total figure?—No.

2690. But there are reserves there, I suppose?—Yes, undoubtedly; necessary ones.

2691. Do you mean necessary ones for liabilities that are accruing?—No, what I should describe, possibly, as earmarked; they are devoted to particular purposes.

2692. Mr. Quirey told me that in his case there was $5\frac{1}{2}$ million pounds in that account which was a reserve, and which would form part of his free reserves; and Mr. Cope had just under $\pounds 1,000,000$. You say that you have no corresponding amount to that in any of these items of "Liabilities Accrued" or "Miscellaneous Accounts"?—No.

2693. There is nothing corresponding to that at all?—Nothing.

2694. You see that there is a figure in this table, the increase in free reserves including Government compensation, $\pounds 8,47,345$?—Yes.

2695. You see that, do you?—Yes.

2696. You have given me the figure that you took from Government compensation, or which you have assumed that you have taken from that, as being $6\frac{1}{2}$ millions?—Yes.

2697. That leaves a balance of $\pounds 2,347,000$?—Yes.

2698. Where shall I find that in the account?—

The figure that you are using, if I may point it out to you, is the increase in the period.

2699. We know, of course, that the Government Compensation Fund is all increase, because it did

not exist in 1913.—Might I refer you to the balance-sheet?

2700. Yes; I have the balance-sheet before me.—You will find the general reserve fund at the foot of the liabilities side.

2701. Yes.—It is practically $\pounds 2,000,000$.

2702. I see that.—You will find the contingency fund higher up, $\pounds 1,300,000,000$, and you will find the casualty fund $\pounds 99,000$. On the revenue account you will find the amount carried forward "Undistributed profits" in Account No. 9.

2703. That is what you describe as an increase in reserve?—I have pointed out to you the total figures at 1923; but from those must be deducted what was in existence in 1913.

2704. Yes, I follow. I think there is only one other matter I want to ask you about; and I want to ask you about it purely from the point of view of accountancy, and not with any regard to the merits of any particular method. As we know, there were in 1913, in the various companies that compose your group, varying practices in regard to matters of providing for the renewal of rolling stock, for instance?—Undoubtedly.

2705. And there were varying periods of life which were assumed to be the appropriate life during which the assets should be replaced?—Yes.

2706. I am merely looking at it from the point of view of accounts. Of course if you had two companies, one of which, for instance, regarded 20 years as being the right life for a locomotive, and the other of which regarded 30 years as being the correct period for that particular unit, that would be translated into the expenditure of those companies as shown upon the appropriate abstract, as a very different charge. It would be in the proportion of two to three?—Under the head of renewals, yes.

2707. And those variations, of course, are easily ascertained. It was known what the policy of these different companies was, and of course the adjustment to a uniform standard, as a matter of accountancy, I take it, would not be a matter of very great difficulty?—I can see very great difficulty in applying, or continuing to apply, those varying standards to a consolidated whole; I mean a practical difficulty.

2708. On the other hand, if you do not do it, and you have a large number of companies which adopted 30 years as the life and some others which adopted 20 years, and now the consolidated whole adopts 20 years, then over the whole it is obviously a very much higher standard of charge than would apply to the constituent parts?—Yes, it would so result.

Cross-examined by Mr. STAFFORD CRIPPS.

2709. You said something about some shares of your own which you had held and which you had sold during 1923?—Yes, in the London and North Eastern Railway.

2710. Yes. What was the amount?—The amount that I mentioned was $\pounds 50,000$.

2711. Were they shares which came to you owing to the amalgamation? Did they become London and North Eastern shares owing to the amalgamation?—They became London and North Eastern shares owing to the amalgamation. They were shares held by the Great Central Company in the Wrexham and Ellesmere line.

2712. Was that the only bunch of shares that so came to you?—No. There was some Chatham Arbitration Stock. There were others. I only quoted that as an example.

2713. Never mind about the others, we will take that as an example. In 1923 you sold those shares?—That is so.

2714. What did you do with the money that you got for them?—I passed it to the credit of the account to which, on adjustment, the shares had been removed after leaving the permanent capital account of the company. May I perhaps make that a little clearer?

2715. Yes, perhaps you could?—On amalgamation, those shares, which up to that time had formed part of the capital expenditure of the Great Central Rail-

way Company recorded in their Account No. 4 of permanent capital expenditure, were removed to open account and which have appeared as a special asset in the balance-sheet in future years if they had not been sold.

2716. As it was, you cancelled them when you sold them?—Naturally, the price cancelled the stock.

2717. So that the amalgamated company will no longer receive interest on the shares?—That is so.

2718. And as regards that item, it will not be a fair comparison as between 1913 and the present date, because in the accounts of 1913 you had got the interest on the capital sum?—That was so.

2719. What I want to know is what you have done with the other $\pounds 50,000$?—It would be passed into the floating assets of the company.

2720. I see; and as part of the floating assets of the company, it will probably be used for some capital improvement?—Yes; it may be, undoubtedly.

2721. And when it comes to be so used, under Section 58 (1) (b) or Section 59 (3), the company will claim that it is capital which has been provided?—That must be, of course, in a future review.

2722. But that will be so on the present basis on which you are claiming under Section 58 (1) (b)?—I am afraid that I should have to refer to the Act. I think that probably makes it clear.

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[Continued.]

2723. Let me put to you what they are doing under Section 55 (1) (b). You say that all moneys expended on capital matters must have been provided or raised?—Yes.

2724. And therefore you take as your criterion all capital expenditure made?—Yes.

2725. In the future, when you come to take that as your criterion, you will not be able to say whether this £50,000 has been used, or not, will you?—No; we shall not be able to earmark it.

2726. Therefore, the capital expenditure for which that has been used will again come into account, and the users of the railways will be asked to provide 5 per cent. or 6 per cent. interest upon that?—Yes, that is my view.

2727. Under Section 58 (1) (c) you will remember that each work has to be of over £25,000 in value?—Yes.

2728. I cannot quite appreciate from the answers which you have given what you understand by the expression "a work." Will you tell me?—We have looked at it as being one work at one consideration by a Special Board Minute.

2729. It must be a Special Board Meeting?—A Special Board Minute.

2730. An ordinary Board Minute?—Yes.

2731. Have you got some of those authorisations so that I can see them, because I should like to see the form of them?—I am afraid I have not.

2732. Perhaps you could get some?—I could do so, yes.

2733. And would you particularly let me see those which are mentioned on page 29, for instance, the Nottingham Joint Station Committee and the Cheshire Lines Committee, and those mentioned under the Great Central Railway, the London Extension? That is on page 24 and 29?—Do you wish to have the whole of those?

2734. If you please; there will not be many, because you say that each one of those is ordered by one Minute of the Board. There will only be about a dozen or fifteen all together?—Quite.

2735. You are quite certain, for instance, that the £9,700,000 was all ordered in one Minute of the Board?—No, I am not.

2736. Have you not inquired?—No. These are all recorded. We have not got back the Minutes under which the capital was authorised.

2737. You have just told me that your definition of "a work" was that which was ordered at one time by a Board meeting?—Yes.

2738. Have you inquired as to whether the £9,700,000 was ordered in one Minute of one Board meeting?—No, I have not.

2739. So that you have not applied your definition of "a work"?—I have not applied that definition as the test; I have used the capital account. One assumes that that was the case.

2740. What is the value of the definition of "a work," if you do not apply it in making your claim under the Schedule?—The value of it is that the work is recorded on capital account under Minutes, as a rule.

2741. If you turn up your record of the Minute you will find the capital value of that work?—Yes, I shall, in the accounts.

2742. So that, in getting out these figures of capital value, you would have seen the references to the Minutes?—Not of necessity. We should go by the capital account, which, perhaps, did not give those references; but I think they can be produced.

2743. Will you look again for a moment at page 29, the Nottingham Joint Station Committee item?—Yes.

2744. Do you consider those items to be six individual works?—No; part of them will be.

2745. How many works do you consider them to be?—Well, I am not familiar with that joint station.

2746. But you drew up this schedule, did you not?—Yes.

2747. And you drew it up under the provisions of Section 58 (1) (c), and in order to comply with those?—Yes.

2748. You knew that in those provisions "a work" was mentioned?—Yes.

2749. Now I want to know from you how many individual works you consider that there are under this Nottingham Joint Station Committee entry?—I am afraid I could only reply that there are at least—or, perhaps, at most—

2750. There are six of them?—There are six of them, and two of them are below £25,000.

2751. Do not come to that. I was rather afraid that you had something like that at the back of your mind. How many works are there here in this Schedule? Do not worry about the value for the moment. How many works are there in this Schedule?—I am afraid I cannot tell you that.

2752-3. You cannot say?—No.

2754. Therefore, it means that you cannot say whether you are justified in putting in the two items which you have got there; that is to say the last two?—The only justification for them would be—

2755. You cannot say?—No.

2756. So that you put in those two items without knowing whether they were justified or not?—Personally, I must say "Yes" to that.

2757. You did?—Yes.

2758. You have said that for all these items the dates given, as far as possible, were the dates when the things were brought into use?—Yes.

2759. When is land which is never used brought into use? What date is taken for that?—I think in those cases we have taken the purchase date.

2760. So that as regards all the items of land here, the purchase date would apply?—Except in one case.

2761. Except in the case of the half million pounds?—That is right.

2762. You will see on the same page "Liverpool Central Land, etc." I suppose, similarly, for that you cannot tell me how many works you consider those to be?—No.

2763. And similarly, each one being under £25,000, you cannot say whether you were justified in putting them in or not?—No.

2764. And you do not put forward any justification?—I have not got it in mind at the moment; I am sorry.

2765. I think you said that in the agreement with the Government "works" was taken to include land?—Yes.

2766. You know that it was put in expressly, and in words, do you not?—Yes.

2767. It was not "taken to include it" at all; it had it expressly added?—It was expressly added.

2768. I do not want to trouble about quoting the words, but it is on page 89 of the Appendix of Cmd. 1132: "Interest to be allowed on all sums upon (1) Works," and then in a bracket "(including in that term rolling stock and plant and also land used in connection with works)"?—Yes.

2769. So that land not used in connection with works was not included?—For that purpose.

2770. But you put that purpose forward as a justification for including land, did you not?—I said we had used that. We had been acting on that instruction and had come to the conclusion that works must in every case include land.

2771. That was your attempt to interpret those words?—That is it.

2772. Before 1913 had the company with which you are connected any depreciation account for buildings?—For buildings?

2773. Buildings, warehouses, stations, engine-sheds, carriage-sheds?—Are you referring to the North Eastern Company?

2774. I thought that was the only one you knew about before 1913?—Yes. They had not a depreciation fund based, as far as I recollect, on the life of buildings.

2775. But you had a depreciation fund for them?—A renewal fund I prefer to call it.

2776. And the object of that renewal fund was that after so many years you should have so much money in hand in the renewal fund to reproduce the buildings?—Yes—buildings.

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[Continued.]

2777. That is generally the object of a renewal fund, is it not?—Yes.

2778. In the meantime that renewal fund was earning interest?—Yes.

2779. And the rate at which you put it at the time, I suppose, was so calculated that the residual value of the building at any year, plus the renewal fund, would bring in a return of the capital?—We had no formula.

2780. But that would be the basis upon which it would be decided how much to put aside?—I am afraid we did not go into it quite as finely as that with regard to buildings.

2781. But that would be at the back of your minds?—Undoubtedly.

2782. So that if, we will say, 20 years before 1913 you spent, for instance, £100,000 on an engine-shed, by the time you got to 1913 you would have 20 years of accumulations in your renewal fund as against that engine-shed—not allocated specifically, but it would probably be there?—There would be something, whether it would be adequate or not.

2783. Something which had been accumulating during 20 years?—Yes.

2784. And that would be earning interest?—Yes.

2785. And that interest would serve to remunerate you for the original capital employed?—No.

2786. It would contribute towards it. I do not mean that it would entirely cover it?—That is so. I am taking you broadly when you say "interest." The money does not lie idle.

2787. I am not taking any specific item. Therefore, when you are calculating under 58 (1) (c), you must take into account the interest you are getting on this renewal fund at the beginning of 1913 when

you are considering whether the capital employed is fully remunerated; is not that right?—No, I think not.

2788. Why?—It would be against all accounting practice, as far as I know it.

2789. This is not a question of accountancy at the moment; it is a question of reasonable remuneration. What I am putting to you is that already that capital is partially remunerated by reason of the interest which you are receiving upon the renewals fund which you built up. You have told me that is so?—In my view one is entitled to consider the first cost.

2790. Never mind what you are entitled to consider. Is it the fact that the capital is partially remunerated by the interest on the renewals fund? You told me it was, you know, a few minutes ago?—Certainly.

Mr. Clauson: You told him; I do not think he told you.

Mr. Stafford Cripps: He was good enough to agree. If itness: Partially it would be.

2791. Mr. Stafford Cripps: Therefore, it is fair to take that partial remuneration into account when you are considering the full remuneration?—Not for the purpose of 58 (1) (c).

2792. Let us leave out 58 (1) (c) for the moment. If you are merely considering it apart from any Act of Parliament or from any particular person interested, it is fair to take into account that partial remuneration as affecting the full remuneration?—I can only say it would be contrary to any practice I have ever known followed.

Mr. Stafford Cripps: If you cannot say more than that, it is no good asking you the question again.

Cross-examined by Mr. J. H. Worrall.

2793. With regard to "R.T. 2a," there is a heading on the first folio, "Standard Revenue." Then lower down it says, "Total Net Income." How would you define the difference between revenue and income?—I beg your pardon; I did not catch your question.

2794. There is a summary, and the total claim of your company is £1,205,000 odd?—Yes.

2795. At the top it says "Revenue," and then it goes on and says "Income." This is a schedule of revenue, and you start away by giving us net income. What is the difference?—The total net income there is the amount shown as net income in the published accounts of the company.

2796. Is that income less expenditure?—Yes; it is net.

2797. You take the expenditure away from the income?—Yes.

2798. So that this is not the income; it is income less expenditure?—This is net income, as described.

2799. I suppose in the net income you take away the expenditure?—Yes. "Net" means that the expenditure has been deducted.

2800. If we can reduce that amount of yearly £15,000,000, it would be in the interest of the passengers and of those who pay freight in the future if we could reduce this standard figure?—Without doubt.

2801. I want to get back to what I have already examined upon, and that is a differentiation between capital and income, which, to my mind, and possibly to many minds, is very important. What is the practice of your company in connection with the book-keeping as regards income for revenue purposes and income, say, for capital purposes?—Are those two kept absolutely distinct?—Absolutely.

2802. They are in every case kept absolutely distinct?—Quite distinct.

2803. Take the concrete case of a waiting-room. Suppose you are going to build a waiting-room, what do you do with the expense attending the building of the waiting-room in connection with the allocation of it in the columns "Revenue" and "Capital"? Which column would you put it in?—A new additional waiting-room entirely?

2804. Yes?—The engineer responsible would instruct his officials to charge all their expenses on that waiting-room to a certain head of account.

2805. The expenditure would go in a column in the cash book when it is charged in the first place. There would be a general cash book, would there not?—Undoubtedly.

2806. On a dual account system some companies have two cash books—one for the capital and one for revenue?—Yes.

2807. Is it the practice of your company to have one cash book or two cash books, that is, a revenue cash book and a capital cash book?—We should have a revenue and a capital cash book.

2808. So that money would go into one or other of them?—Yes.

2809. Take the expenditure of your capital on the waiting-room—spending money to build a waiting-room. Is there such a case as a waiting-room being built and a portion of the cost of the waiting-room going into revenue and a portion of it into capital?—Only if it were so decided.

2810. That brings it back to the decision of the directors?—Yes. That is to say if it were an absolutely new waiting-room it would be capital. There would be no doubt as to that. If it were replacing a poorer waiting-room it would be a division between capital and revenue.

2811. That is very subtle. Who decides the proportion of the figures between the two cash books?—The directors, on the advice of their officers.

2812. The directors put one portion into the capital cash book and another into the revenue cash book?—That is what it comes to.

2813. Did you hear Mr. Quirey say there are cases in which six waiting rooms are built and three waiting rooms go into capital and three go into revenue?—I did not hear him say that.

2814. Would your company do that, because I believe Mr. Quirey did say that?—It is quite possible that the portions might be divided between capital and revenue on six waiting rooms.

Mr. J. H. Worrall: Therefore, if I can prove that this £14,000,000 should be written down very consider-

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[Continued.]

ably by assets which have not been properly written off, I should be doing some good to the public.

President: That is what we are looking forward to when the occasion arises, Mr. Worrall. You are giving yourself an unsolicited testimonial. Would you just ask the Witness any question you have?

2815. *Mr. J. H. Worrall:* That is the question. I am asking the practice of his company with regard to the difference between capital and revenue. I wish to say that it is most essential in the interests of the public that these different cash books should be properly sorted out and earmarked between the two different items. I shall then put it to the witness that the companies' practice varies, because his company would not do such a thing as to sort out the waiting rooms in this way between the cash books.—The expenditure is not dealt with through the cash book. The cash book is a cash book, and there are many entries necessary before the actual expenditure is sorted up into the ledgers of the company as between capital and revenue.

2816. But there are two cash books in the case of your company?—There are many cash books.

2817. But is there a capital cash book and a revenue cash book?—There would be a cash book in which is recorded the capital receipts. When you speak of the amount received from shareholders, for instance, for new capital that would be recorded in a special book.

2818. There are capital cash books and revenue cash books. The fundamental distinction would be a double account system?—The money would all go into one fund.

2819. Do you think the double account system is a perfect system?—For railways, yes.

2820. Now come to the question of works. You have a capital ledger and a revenue ledger?—Yes.

2821. And you have a number of balances. Take the case of a steamboat. The value of the steamboat would appear, possibly, as so many thousand pounds?—Yes.

2822. Do you write off a certain amount every year in connection with the diminishing value of that steamboat?—No—not write off. The expression "write off" means reducing the value of the assets annually, and we do not do it.

2823. But it ought to be done?—It comes to the same thing if provision is made.

2824. In 1913, was provision made for all the assets which had depreciated or had become wrecked or broken down or derelict?—I can answer for the North Eastern and say "Yes" to that.

Solicitor-General: I do not know, Sir, if you would like me to ask what it is proposed to do about Tuesday. As you know, all the Courts are closing because of the King's Birthday. I presume the Tribunal would follow the same course.

President: Would that be convenient to the parties?

Solicitor-General: It would be convenient to the learned Counsel.

President: Are you speaking for Sir Douglas Hogg as well?

Solicitor-General: Yes, I have consulted him.

President: Under those circumstances we will not sit on Tuesday. We will sit on Monday at 11 o'clock.

(Adjourned till Monday, June 2nd, at 11 a.m.)

Errata.

In Questions 1511 and 1512, "your 1913" should be "pre-1913."